EXHIBIT F

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Lehman Brothers Holdings Inc. ("Holdings") and subsidiaries (collectively, the "Company," the "Firm," "Lehman Brothers," "we," "us" or "our") serves the financial needs of corporations, governments and municipalities, institutional clients and high net worth individuals worldwide with business activities organized in three segments, Capital Markets, Investment Banking and Investment Management. Founded in 1850, Lehman Brothers maintains market presence in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices in North America, Europe, the Middle East, Latin America and the Asia-Pacific region. We are a member of all principal securities and commodities exchanges in the U.S., and we hold memberships or associate memberships on several principal international securities and commodities exchanges, including the London, Tokyo, Hong Kong, Frankfurt, Paris, Milan and Australian stock exchanges.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the Consolidated Financial Statements and the accompanying Notes contained in this Annual Report on Form 10-K for the fiscal year ended November 30, 2007 (the "Form 10-K"). Unless specifically stated otherwise, all references to the years 2007, 2006 and 2005 in this MD&A refer to our fiscal years ended November 30, 2007, 2006 and 2005, or the last day of such fiscal years, as the context requires. All share and per share amounts have been retrospectively adjusted for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective April 28, 2006. For additional information, see "2-for-1 Stock Split" in this MD&A and Note 10, "Stockholders' Equity," to the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this MD&A, including those relating to our strategy and other statements that are predictive in nature, that depend on or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements are not historical facts but instead represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, market risk, investor sentiment, liquidity risk, credit ratings changes, credit exposure and operational, legal, regulatory and reputational risks. For further discussion of these risks, see "Certain Risk Factors Affecting Results of Operations" below as well as "Risk Factors" in Part I, Item 1A in the Form 10-K.

As a global investment bank, the nature of our business makes predicting future performance difficult. Revenues and earnings may vary from quarter to quarter and from year to year. Caution should be used when extrapolating historical results to future periods. Our actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date on which they are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

EXECUTIVE OVERVIEW[1]

SUMMARY OF RESULTS

On the basis of a record first half and a reasonably successful navigation of difficult market conditions in the second half, we achieved our fourth consecutive year of record net revenues, net income and diluted earnings per common share in 2007. Net income totaled $4.2 billion, $4.0 billion and $3.3 billion in 2007, 2006 and 2005, respectively, increasing 5% in 2007 and 23% in 2006 from the corresponding 2006 and 2005 periods, respectively. Diluted earnings per common share were $7.26, $6.81 and $5.43 in 2007, 2006 and 2005, respectively, up 7% in 2007 and 25% in 2006 from the corresponding prior periods, respectively.[2]

2007 net revenues were $19.3 billion, which exceeded the prior year record level by 10% and represents the fifth consecutive year of record net revenues. The second half of the 2007 fiscal year presented some of the most challenging mortgage and credit markets experienced in almost a decade, particularly in the U.S. Record net revenues were reported in each of our three business segments and in both the Europe and the Middle East and Asia-Pacific geographic segments. Pre-tax margin for the 2007 fiscal year was 31.2%, compared to 33.6% and 33.0% reported in 2006 and 2005, respectively. Full year return on average common stockholders' equity[3] was 20.8%, 23.4% and 21.6% for 2007, 2006 and 2005, respectively. Return on average tangible common stockholders' equity was 25.7%, 29.1% and 27.8% in full years 2007, 2006 and 2005, respectively.

2007 vs. 2006 In 2007, Capital Markets segment net revenues increased 2% to a record $12.3 billion from $12.0 billion in 2006. Capital Markets—Equities, operating in a favorable environment of strong customer-driven activity and favorable global equities markets, reported net revenues of $6.3 billion in 2007, a 76% increase from $3.6 billion in 2006. These record results in the Equities component of our Capital Markets business segment were offset by a decrease in Capital Markets—Fixed Income's net revenues which declined 29% to $6.0 billion in 2007 from $8.4 billion in 2006. This decline corresponds to the deterioration throughout the fiscal year in the U.S. residential mortgage sector and the follow-on dislocation in the broader credit markets that occurred later in the fiscal year. Investment Banking segment net revenues increased 24% to $3.9 billion in 2007 from $3.2 billion in 2006, representing record Debt and Equity underwriting-related activities as well as record Advisory Services revenues. These results reflect the significant progress made in building market share in the areas of mergers and acquisitions ("M&A") and high yield offerings as well as the development of a broader range of geographic and client bases. Investment Management segment net revenues increased 28% to $3.1 billion in 2007 from $2.4 billion in 2006, reflecting record net revenues in both Asset Management and Private Investment Management and our continued expansion of this business segment globally. For the fiscal year, assets under management ("AUM") of $282 billion increased 25% from 2006 from both net inflows and asset appreciation. Non–U.S. net revenues increased 49% to $9.6 billion in 2007 from $6.5 billion in 2006, representing 50% and 37% of total net revenues in the 2007 and 2006 periods, respectively.

2006 vs. 2005 Net revenues increased 20% in 2006 from 2005. Capital Markets segment net revenues increased 22% to $12.0 billion in 2006 from $9.8 billion in 2005. Capital Markets—Equities net revenues rose 44% to $3.6 billion in 2006 from $2.5 billion in 2005, driven by solid client-flow activity in the cash and prime services businesses. Capital Markets—Fixed Income net revenues increased 15% to $8.4 billion in 2006 from $7.3 billion in 2005 due to broad-based strength across products and regions. Investment Banking segment net revenues increased 9% to $3.2 billion in 2006 from $2.9 billion in 2005, reflecting strength in each business. Investment Management segment net revenues increased 25% to $2.4 billion in 2006 from $1.9 billion in 2005, reflecting growth in alternative investment offerings and an increase in

[1] Market share, volume and ranking statistics in this MD&A were obtained from Thomson Financial, an operating unit of The Thomson Corporation.

[2] The 2006 results included an after-tax gain of $47 million ($0.08 per diluted common share) from the cumulative effect of an accounting change for equity-based compensation resulting from the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised), *Share-Based Payment* ("SFAS 123(R)"). For additional information, see Note 12, "Share-Based Employee Incentive Plans," to the Consolidated Financial Statements.

[3] Return on average common stockholders' equity and return on average tangible common stockholders' equity are computed by dividing net income applicable to common stock for the period by average common stockholders' equity and average tangible common stockholders' equity, respectively. We believe average tangible common stockholders' equity is a meaningful measure because it reflects the common stockholders' equity deployed in our businesses. Average tangible common stockholders' equity equals average common stockholders' equity less average identifiable intangible assets and goodwill and is computed as follows:

	Year Ended November 30,		
In millions	2007	2006	2005
Net income applicable to common stock	$ 4,125	$ 3,941	$ 3,191
Average stockholders' equity	$20,910	$17,971	$15,936
Less: average preferred stock	(1,095)	(1,095)	(1,195)
Average common stockholders' equity	$19,815	$16,876	$14,741
Less: average identifiable intangible assets and goodwill	(3,756)	(3,312)	(3,272)
Average tangible common stockholders' equity	$16,059	$13,564	$11,469
Return on average common stockholders' equity	20.8%	23.4%	21.6%
Return on average tangible common stockholders' equity	25.7%	29.1%	27.8%

equity-related activity. In 2006, AUM increased 29% to $225 billion from $175 billion in 2005. Non–U.S. net revenues increased 21% to $6.5 billion in 2006 from $5.4 billion in 2005, representing 37% of total net revenues for both the 2006 and 2005 periods.

While we generated record operating results in 2007, our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of factors that may affect our future operating results, see "Certain Factors Affecting Results of Operations" below as well as "Risk Factors" in Part I, Item 1A in the Form 10-K. For a detailed discussion of results of operations by business segments and geographic regions, see "Business Segments" and "Geographic Revenues."

BUSINESS ENVIRONMENT

As an investment banking, securities and investment management firm, our businesses are materially affected by conditions in the global financial markets and worldwide economic conditions. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent and efficient capital markets, liquid markets with active investors, low inflation, high business and consumer confidence and strong business earnings. These factors provide a positive climate for our investment banking activities, for many of our capital markets trading businesses and for wealth creation, which contributes to growth in our asset management business. For a further discussion of how market conditions can affect our business, see "Certain Factors Affecting Results of Operations" below as well as "Risk Factors" in Part I, Item 1A in the Form 10-K. A further discussion of the business environment in 2007 and economic outlook for 2008 is set forth below.

The global market environment was generally favorable for our businesses for the first half of the 2007 fiscal year. These favorable conditions resulted from a number of factors: strong equity markets, continued strong gross domestic product in most major economies, tightening credit spreads, minimal interest rate actions by major central banks, active trading volumes, and strong M&A and underwriting activities driven by favorable interest rate and credit spread environments. During the second half of the 2007 fiscal year, the global economy was impacted by the deterioration within the U.S. subprime residential mortgage asset category, the weakening of the U.S. housing sector became worse than most observers expected and dislocations began to occur beyond the residential mortgage component of credit markets. Also during the latter part of the 2007 fiscal year, risk aversion escalated following rating agency downgrades of certain structured assets which, in part, led to many market participants re-pricing assets and taking large write-downs. Central banks sought to prevent a more serious downturn by central bank interest rate and liquidity actions. Our fiscal year ended with dislocated inter-bank markets, constrained bank balance sheets and credit uncertainty regarding monoline issuers and structured investment vehicles.

The global fixed income environment was characterized by spreads tightening in the first half of the year and, conversely, unprecedented spread widening in the second half of the year. Global high yield and high grade spread indices ended our fiscal year up 209 and 86 basis points, respectively, compared to the end of our 2006 fiscal year. Global equity markets rose over the fiscal year; however, many equity markets experienced high volatility in the second half of the year. Globally, corporate activity levels in completed and announced M&A transactions were up compared to our last fiscal year. In addition, equity underwriting activity remained solid, particularly in convertibles; but debt underwriting activity declined, particularly in leveraged finance during the second half of the 2007 fiscal year.

Global economic growth was approximately 3.4% for calendar year 2007 and is forecasted to be lower for calendar year 2008. Our forecast differs by geographies: our growth assumptions for the Americas and Eurozone are lower than those for Asia and other territories. Our growth outlook is dependent on how extended and severe the credit dislocation may be, results from fiscal and monetary policy actions, accessibility of new sources of liquidity and oil prices leveling or continuing to increase. The underpinnings of these growth assumptions also form our view on prospective Investment Banking activity. We expect M&A volumes to decline in 2008 by approximately 20% as compared to 2007 and believe that (i) strategic buyers will continue to account for a larger proportion of overall deal volume, (ii) stock will become prominent in transactions and (iii) cross-border and international activity will continue to increase. If the anticipated higher volatility in global equity markets is realized in calendar 2008, we expect equity issuance will be down compared to 2007. Equity capital markets experienced a 17% return in 2007 in local currency terms, and we expect lower returns in 2008. We expect global fixed income origination to decline in 2008 as a result of lower volumes of securitizations and M&A financings. Fixed income capital markets are expected to continue to face uncertainties in the 2008 calendar year.

In the U.S., economic growth showed signs of strength at the beginning of our fiscal year, driven by higher net exports and consumption levels, among other indicators, but the pace of growth slowed in the latter half. Over the twelve-month period, the U.S. housing market weakened, business confidence declined, and, in the last six months of the year, consumer confidence dropped. The labor market followed the same trajectory, showing signs of deterioration in the second half of the period as unemployment levels increased modestly and payroll data showed some signs of weakness. Responding to concerns over liquidity in the financial markets and inflationary pressures, the U.S. Federal Reserve reduced rates three times during the calendar year and made an additional inter-meeting rate cut in January 2008, and most observers anticipate additional reductions will occur in the early part of our 2008 fiscal year. Long-term bond yields declined, with the 10-year Treasury note yield ending our fiscal year down 52 basis points at 3.94%. The S&P 500 Index, Dow Jones Industrial Average and NASDAQ composites were up 5.7%, 9.4%, and 9.4%, respectively, from November 2006 levels.

The current high levels of U.S. home inventories suggest that an extended period of construction declines and housing price cuts will combine with tighter credit conditions and increasing oil prices to slow down consumer spending. We believe those conditions will continue to strain the capital markets, particularly the securitized products and residential housing components. We also believe that those conditions will stress other components of the capital markets, such as commercial real estate. We believe these impediments will decrease the U.S. growth rate in 2008.

In Eurozone countries and the U.K., economic growth continued in the second half of the 2007 fiscal year, although it was modest compared to the first half. Business activity reflected a slight tapering at the end of the fiscal year. Unemployment levels declined over the fiscal year, and inflationary pressures appeared contained. The European Central Bank increased rates twice during our fiscal year and is forecasted to hold those levels through the early part of our 2008 fiscal year. The Bank of England (the "BOE") increased rates three times during our fiscal year, and in December 2007 the BOE began to ease with a rate reduction. Further rate reductions are anticipated in the early part of the 2008 calendar year. The Bund and Gilts 10-year yields were 4.13% and 4.64%, respectively, at the end of our 2007 fiscal year compared to 3.70% and 4.51%, respectively, at the end of our 2006 fiscal year. Equity indices and volatility for continental Europe and the U.K. were up compared to levels at the end of our 2006 fiscal year. At the end of our 2007 fiscal year, stresses in the banking system, particularly in the U.K, were causing bank credit conditions to tighten. We believe that those tighter conditions, lower anticipated world growth and a stronger Euro will combine to slow regional growth for our upcoming 2008 fiscal year.

In Japan, real gross domestic product growth decelerated, unemployment levels modestly decreased and deflation eased during our 2007 fiscal year. The Bank of Japan increased its rates in early 2007 and held those rates for the remainder of our fiscal year, and is anticipated to continue to do so into our 2008 fiscal year. The yield on the 10-year Japanese government bond fell 18 basis points to 1.48% at the end of our 2007 fiscal year. The Nikkei 225 equity index was 3.6% lower at the end of our fiscal year than its level at the end of our 2006 fiscal year. Residential and non-residential construction spending is decreasing, and the recovery in the corporate sector during the period has yet to have an effect on wages and consumption, thus increasing the risk of a possible recession. Elsewhere in Asia, however, equity markets broadly ended our fiscal year higher compared to the prior period. We expect three trends to emerge in China's economy in 2008: (i) GDP growth to fall on an annual basis for the first time in six years; (ii) inflation to increase over the long-term; and (iii) overcapacity concerns to shape central bank actions. During 2008, we expect India to exhibit many of the same characteristics that Japan, South Korea and China did during their economic takeoffs: GDP accelerating, investment and savings rates surging and the economy rapidly opening up. Effects from the region's dependency on exports and severe overcapacity may exacerbate the regional growth slowdown predicted for 2008.

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS

We are exposed to a variety of risks in the course of conducting our business operations. These risks, which are substantial and inherent in our businesses, include market, liquidity, credit, operational, legal and regulatory risks. A summary of some of the significant risks that could affect our financial condition and results of operations includes, but is not limited to the items below. For a discussion of how management seeks to manage these risks, see "Risk Management" in this MD&A. For a further discussion of these and other important factors that could affect our business, see "Risk Factors" in Part I, Item 1A in the Form 10-K.

MARKET CONDITIONS AND MARKET RISK

Global financial markets and economic conditions materially affect our businesses. Market conditions may change rapidly and without forewarning. We believe a favorable business environment for our businesses is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent and efficient capital markets, liquid markets with active investors, low inflation, high business and consumer confidence and strong business earnings. The converses of these factors, individually or in their aggregate, have resulted in or may result in unfavorable or uncertain market and economic conditions for our businesses. The effects on our businesses may include the following:

- We are exposed to potential changes in the value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and fixed income securities and commodities and real estate prices, credit spreads, liquidity volatility, overall market activity or other conditions. We may incur losses as a result of changes in market conditions, especially if the changes are rapid and without warning, as these fluctuations may adversely impact the valuation of our trading and inventory positions and principal investments.
- Market fluctuations and volatility may reduce our or our customers' willingness to enter into new transactions. Conversely, certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect these businesses. Any change in volume of executed transactions impacts both our costs incurred and revenues received from those trades.
- Although we deploy various risk mitigation and risk monitoring techniques, they are subject to judgments as to the timing and

duration of their application. Additionally, no risk management procedure can anticipate every market event and the existence of risk management in our businesses does not provide complete assurance against incurring losses. Increased market volatility directly impacts our measurement of risks. Increases to our measured risk may cause us to decrease our proprietary positions or certain business activities. In such circumstances, we may not be able to reduce our positions or our exposure in a timely, cost-effective way or in a manner sufficient to offset the increase in measured risk. For additional discussion on risk mitigation and risk monitoring techniques, see "Risk Management" in this MD&A.

- Declines in the size and number of underwritings and M&A transactions may have an adverse impact on our results of operations and, if we are unable to reduce expenses, our profit margins. An overall decrease in global markets' appetites for transactions may also impact our ability to syndicate various loan or equity commitments we have made. Additionally, pricing and other competitive pressures may adversely affect revenues for our Investment Banking segment.
- Asset valuations of our clients' portfolios are impacted by changes in equity market conditions or interest rates. In turn, our fees for managing those portfolios are also affected. Changing market conditions may cause investors to change their allocations of investments in our funds or other products. Our asset management business operates in a highly competitive environment. Changes in our asset management business' performance could result in a decline in AUM and in incentive and management fees.

CREDIT RISK

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer who owes us money, securities or other assets being unable or unwilling to honor its contractual obligations. We are also at risk that our rights against any individual, counterparty or issuer may not be enforceable in all circumstances. Additionally, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses or adversely affect our ability to otherwise use those securities or obligations for liquidity purposes. The amount and duration of our credit exposures have been increasing over the past several years, as have the number and range of the entities to which we have credit exposures. Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, new business initiatives may cause us to transact with a broader array of clients, with new asset classes and in new markets. In addition, the recent widening of credit spreads and dislocations in the credit markets have in some cases made it more difficult to syndicate credit commitments to investors, and further widening of credit spreads or worsening of these dislocations could increase these difficulties, resulting in increased credit exposures.

LIQUIDITY RISK

While our liquidity strategy seeks to ensure that we maintain sufficient liquidity to meet all of our funding obligations in all markets, our liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from our subsidiaries, an inability to sell assets or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that we are unable to control, such as a general market disruption or an operational problem that affects third parties or us. As we continue to employ structured products to benefit our clients and ourselves, the financial instruments that we hold and the contracts to which we are a party are becoming increasingly complex and these complex structured products often do not have readily available markets to access in times of liquidity stress. Growth of our principal investing activities could further restrict liquidity for these positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger provisions under certain bilateral provisions in some of our trading and collateralized financing contracts that could permit counterparties to terminate contracts or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal or outsourced processes, people, infrastructure and technology, or from external events. Our businesses are dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets. These transactions have become increasingly complex and often must adhere to requirements unique to each transaction, as well as legal and regulatory standards. Although contingency plans exist, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business.

LEGAL, REGULATORY AND REPUTATIONAL RISK

The securities and financial services industries are subject to extensive regulation under both federal and state laws in the U.S. as well as under the laws of all of the other jurisdictions in which we do business. We are subject to regulation in the U.S. by governmental agencies including the SEC and Commodity Futures Trading Commission, and outside the U.S. by various international agencies including the Financial Services Authority in the United Kingdom and the Financial Services Agency in Japan. We also are regulated by a number of self-regulatory organizations such as the Financial Industry Regulatory Authority ("FINRA") (formed in 2007 by the consolidation of NASD, Inc., and the member regulation, enforcement and arbitration functions of the

New York Stock Exchange, Inc. ("NYSE")), the Municipal Securities Rulemaking Board and the National Futures Association, and by national securities and commodities exchanges. Violation of applicable regulations could result in legal and/or administrative proceedings, which may impose censures, fines, cease-and-desist orders or suspension of a firm, its officers or employees.

The scrutiny of the financial services industry has increased over the past several years, which has led to increased regulatory investigations and litigation against financial services firms. Legislation and rules adopted both in the U.S. and around the world have imposed substantial new or more stringent regulations, internal practices, capital requirements, procedures and controls and disclosure requirements in such areas as financial reporting, corporate governance, auditor independence, equity compensation plans, restrictions on the interaction between equity research analysts and investment banking employees and money laundering. The trend and scope of increased regulatory compliance requirements have increased costs.

Our reputation is critical in maintaining our relationships with clients, investors, regulators and the general public, and is a key focus in our risk management efforts. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by employees in the financial services industry, and we run the risk that misconduct by our employees could occur, resulting in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. In addition, in certain circumstances our reputation could be damaged by activities of our clients in which we participate, or of hedge funds or other entities in which we invest, over which we have little or no control.

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our business, including actions brought against us and others with respect to transactions in which we acted as an underwriter or financial advisor, actions arising out of our activities as a broker or dealer in securities and actions brought on behalf of various classes of claimants against many securities firms and lending institutions, including us. See Part I, Item 1A, "Business—Regulation" and Part I, Item 3, "Legal Proceedings" in the Form 10-K for more information about legal and regulatory matters.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following is a summary of our critical accounting policies that may involve a higher degree of management judgment and in some instances complexity in application. For a further discussion of these and other accounting policies, see Note 1 "Summary of Significant Accounting Policies," to our Consolidated Financial Statements.

USE OF ESTIMATES

In preparing our Consolidated Financial Statements and accompanying notes, management makes various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in:

- measuring fair value of certain financial instruments;
- accounting for identifiable intangible assets and goodwill;
- establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations;
- assessing our ability to realize deferred taxes; and
- valuing equity-based compensation awards.

Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our Consolidated Financial Statements and notes thereto.

CONSOLIDATION POLICIES

The assessment of whether accounting criteria for consolidation of an entity is met requires management to exercise judgment. We consolidate the entities in which the Company has a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first determining whether the entity is a voting interest entity (sometimes referred to as a non-VIE), a variable interest entity ("VIE") or a qualified special purpose entity ("QSPE").

Voting Interest Entity Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. In accordance with Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements*, and Statement of Financial Accounting Standards ("SFAS") No. 94, *Consolidation of All Majority-Owned Subsidiaries*, voting interest entities are consolidated when the Company has a controlling financial interest, typically more than 50 percent of an entity's voting interests.

Variable Interest Entity VIEs are entities that lack one or more voting interest entity characteristics. The Company consolidates VIEs in which it is the primary beneficiary. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46-R, *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51* ("FIN 46(R)"), we are the primary beneficiary if we have a variable interest, or a combination of variable interests, that will either (i) absorb a majority of the VIEs expected losses, (ii) receive a majority of the VIEs expected residual returns, or (iii) both. To determine if we are the primary beneficiary of a VIE, we review, among other factors, the VIE's design, capital structure, contractual terms, which interests create or

absorb variability and related party relationships, if any. Additionally, we may calculate our share of the VIE's expected losses and expected residual returns based upon the VIE's contractual arrangements and/or our position in the VIE's capital structure. This type of analysis is typically performed using expected cash flows allocated to the expected losses and expected residual returns under various probability-weighted scenarios.

Qualified Special Purpose Entity QSPEs are passive entities with limited permitted activities. SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125* ("SFAS 140"), establishes the criteria an entity must satisfy to be a QSPE, including types of assets held, limits on asset sales, use of derivatives and financial guarantees, and discretion exercised in servicing activities. In accordance with SFAS 140 and FIN 46(R), we do not consolidate QSPEs.

For a further discussion of our involvement with VIEs, QSPEs and other entities see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

Equity-Method Investments Entities in which we do not have a controlling financial interest (and therefore do not consolidate) but in which we exert significant influence (generally defined as owning a voting interest of 20 percent to 50 percent, or a partnership interest greater than 3 percent) are accounted for either under Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* or SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). For further discussion of our adoption of SFAS 159, see "Accounting and Regulatory Developments—SFAS 159" below.

Other When we do not consolidate an entity or apply the equity method of accounting, we present our investment in the entity at fair value. We have formed various non-consolidated private equity or other alternative investment funds with third-party investors that are typically organized as limited partnerships. We typically act as general partner for these funds, and when third-party investors have (i) rights to either remove the general partner without cause or to liquidate the partnership; or (ii) substantive participation rights, we do not consolidate these partnerships in accordance with Emerging Issue Task Force ("EITF") No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5").

A determination of whether we have a controlling financial interest in an entity and therefore our assessment of consolidation of that entity is initially made at the time we become involved with the entity. Certain events may occur which cause us to re-assess our initial determination of whether an entity is a VIE or non-VIE or whether we are the primary beneficiary if the entity is a VIE and therefore our assessment of consolidation of that entity. Those events generally are:

- The entity's governance structure is changed such that either (i) the characteristics or adequacy of equity at risk are changed, or (ii) expected returns or losses are reallocated among the participating parties within the entity.
- The equity investment (or some part thereof) is returned to the equity investors and other interests become exposed to expected returns or losses.
- Additional activities are undertaken or assets acquired by the entity that were beyond those anticipated previously.
- Participants in the entity acquire or sell interests in the entity.
- The entity receives additional equity at risk or curtails its activities in a way that changes the expected returns or losses.

VALUATION OF FINANCIAL INSTRUMENTS

We measure Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased at fair value. We account for Real estate held for sale at the lower of its carrying amount or fair value less cost to sell. Both realized and unrealized gains or losses from Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased are reflected in Principal transactions in the Consolidated Statement of Income.

We adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), in the first quarter of 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. Additionally and also in the first quarter of 2007, we adopted SFAS 159, and applied this option to certain hybrid financial instruments not previously accounted for at fair value under SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*, as well as certain deposit liabilities at our U.S. banking subsidiaries.

SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and overall market conditions generally.

The overall valuation process for financial instruments may include adjustments to valuations derived from pricing models. These adjustments may be made when, in management's judgment, either the size of the position in the financial instrument or other features of the financial

instrument such as its complexity, or the market in which the financial instrument is traded (such as counterparty, credit, concentration or liquidity) require that an adjustment be made to the value derived from the pricing models. An adjustment may be made if a trade of a financial instrument is subject to sales restrictions that would result in a price less than the computed fair value measurement from a quoted market price. Additionally, an adjustment from the price derived from a model typically reflects management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider such an adjustment in pricing that same financial instrument.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with SFAS 157. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level I, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level III. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management. Financial assets and liabilities presented at fair value in Holdings' Condensed Consolidated Statement of Financial Condition generally are categorized as follows:

Level I Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level II Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

Level III Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain commitments and guarantees and certain derivatives.

Financial assets and liabilities presented at fair value and categorized as Level III are generally those that are marked to model using relevant empirical data to extrapolate an estimated fair value. The models' inputs reflect assumptions that market participants would use in pricing the instrument in a current period transaction and outcomes from the models represent an exit price and expected future cash flows. Our valuation models are calibrated to the market on a frequent basis. The parameters and inputs are adjusted for assumptions about risk and current market conditions. Changes to inputs in valuation models are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions. Accordingly, results from valuation models in one period may not be indicative of future period measurements. Valuations are independently reviewed by employees outside the business unit and, where applicable, valuations are back tested comparing instruments sold to where they were marked.

During the 2007 fiscal year, our Level III assets increased, ending the year at 13% of Financial instruments and other inventory positions owned, measured at fair value and with our derivatives on a net basis. The increase in Level III assets resulted largely from the reclassification of approximately $11.4 billion of mortgage and asset-backed securities, including approximately $5.3 billion in U.S. subprime residential mortgage-related assets, previously categorized as Level II assets into the Level III category. This reclassification generally occurred in the second half of 2007, reflecting the reduction of liquidity in the capital markets that resulted in a decrease in the observability of market prices. Approximately half of the residential mortgage-related assets that were classified as Level III at the end of the 2007 fiscal year were whole loan mortgages. In particular, the decline in global trading activity impacted our ability to directly correlate assumptions in valuation models used in pricing mortgage-related assets, including those for cumulative loss rates and changes in underlying collateral values to current market activity. Additionally and during the fiscal year, the increase of assets characterized as Level III was also attributable to the acquisition of private equity and other principal investment assets, funded lending commitments that had not been fully syndicated at the end of the fiscal year as well as certain commercial mortgage-backed security positions.

For a further discussion regarding the measure of Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased at fair value, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Determining the carrying values and useful lives of certain assets acquired and liabilities assumed associated with business acquisitions—intangible assets in particular—requires significant judgment. At least annually, we are required to assess whether goodwill and other intangible assets have been impaired by comparing the estimated fair value, calculated based on price-earnings multiples, of each business segment with its estimated net book value, by estimating the amount of stockholders' equity required to support each business segment. Periodically estimating the fair value of a reporting unit and carrying values of intangible assets with indefinite lives involves significant judgment and often

involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recognized and the magnitude of such a charge. We completed our last impairment test on goodwill and other intangible assets as of August 31, 2007, and no impairment was identified.

LEGAL, REGULATORY AND TAX PROCEEDINGS

In the normal course of business, we have been named as a defendant in a number of lawsuits and other legal and regulatory proceedings. Such proceedings include actions brought against us and others with respect to transactions in which we acted as an underwriter or financial advisor, actions arising out of our activities as a broker or dealer in securities and commodities and actions brought on behalf of various classes of claimants against many securities firms, including us. In addition, our business activities are reviewed by various taxing authorities around the world with regard to corporate income tax rules and regulations. We provide for potential losses that may arise out of legal, regulatory and tax proceedings to the extent such losses are probable and can be estimated. Those determinations require significant judgment. For a further discussion, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

OVERVIEW

The following table sets forth an overview of our results of operations in 2007:

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Net revenues	$19,257	$17,583	$14,630	10%	20%
Income before taxes	$ 6,013	$ 5,905	$ 4,829	2	22
Net income[(1)]	$ 4,192	$ 4,007	$ 3,260	5	23
Earnings per diluted common share	$ 7.26	$ 6.81	$ 5.43	7%	25%
Annualized return on average common stockholders' equity	20.8%	23.4%	21.6%		
Annualized return on average tangible common stockholders' equity	25.7%	29.1%	27.8%		

(1) Net income in 2006 included an after-tax gain of $47 million, or $0.08 per diluted common share, as a cumulative effect of an accounting change associated with our adoption of SFAS 123(R), on December 1, 2005.

NET REVENUES

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Principal transactions	$ 9,197	$ 9,802	$ 7,811	(6)%	25%
Investment banking	3,903	3,160	2,894	24	9
Commissions	2,471	2,050	1,728	21	19
Interest and dividends	41,693	30,284	19,043	38	59
Asset management and other	1,739	1,413	944	23	50
Gross revenues	$59,003	$46,709	$32,420	26%	44%
Interest expense	39,746	29,126	17,790	36	64
Net revenues	$19,257	$17,583	$14,630	10%	20%
Net interest revenues	$ 1,947	$ 1,158	$ 1,253	68%	(8)%
Principal transactions, commissions and net interest revenues	$13,615	$13,010	$10,792	5%	21%

Principal Transactions, Commissions and Net Interest Revenue In both the Capital Markets segment and the Private Investment Management business within the Investment Management segment, we evaluate net revenue performance based on the aggregate of Principal transactions, Commissions and Net interest revenue (Interest and dividends revenue net of Interest expense). These revenue categories include realized and unrealized gains and losses, commissions associated with client transactions and the interest and dividend revenue and interest

expense associated with financing or hedging positions. Interest and dividends revenue and Interest expense are a function of the level and mix of total assets and liabilities (primarily financial instruments owned and sold but not yet purchased, and collateralized borrowing and lending activities), prevailing interest rates and the term structure of our financings. Caution should be used when analyzing these revenue categories individually because they may not be indicative of the overall performance of the Capital Markets and Investment Management business segments. Principal transactions, Commissions and Net interest revenue in the aggregate rose 5% in 2007 from 2006 and 21% in 2006 from 2005.

2007 vs. 2006 Principal transactions revenue decreased 6% in 2007 from 2006, primarily as a result of negative valuation adjustments made on certain components of our Fixed Income inventory during the second half of the 2007 fiscal year. Although we employ risk mitigation strategies for certain inventory positions, correlations broke down, particularly in the latter parts of the fiscal year, resulting in a higher degree of risk incurred. With respect to Capital Markets—Fixed Income customer flow revenues, heightened risk aversion among investors caused many to shift their trading activity to higher quality and more liquid products, which are generally less profitable for the Firm. The negative adjustments and the effects of this shift on our margin were partially offset by record revenues within Capital Markets—Equities. The comparative increase in Equities' Principal transactions revenue was a result of higher customer activities, increase in market volatility and higher revenues from principal and proprietary trading strategies, especially in the international markets. Commission revenues rose 21% in 2007 from 2006. The increase in 2007 reflected growth in institutional commissions on higher global trading volumes. Net interest revenue increased 68% in 2007 from 2006 reflecting changes in both financing rates and yield curves between the periods. Interest and dividends revenue and Interest expense rose 38% and 36%, respectively, in 2007 from 2006. The comparative increase in Interest and dividend revenues and Interest expense was attributable to the steepening of the yield curve and the growth of certain assets and liabilities on our balance sheet.

2006 vs. 2005 Principal transactions revenue improved 25% in 2006 from 2005, driven by broad based strength across fixed income and equity products. Within Capital Markets, the notable increases in 2006 were in credit products and commercial mortgages and real estate. The 2006 increase in net revenues from Equities Capital Markets reflected higher client trading volumes, increases in financing and derivative activities and higher revenues from proprietary trading strategies. Principal transactions revenue in 2006 also benefited from increased revenues associated with certain structured products meeting the required market observability standard for revenue recognition. Commission revenues rose 19% in 2006 from 2005, reflecting growth in institutional commissions on higher global trading volumes, partially offset by lower commissions in our Investment Management business segment, as certain clients transitioned from transaction-based commissions to a traditional fee-based schedule. Net interest revenue declined 8% in 2006 from 2005 as a result of a change in the mix of asset composition, an increase in short-term U.S. financing rates, and a flattened yield curve. Interest and dividends revenue and Interest expense rose 59% and 64%, respectively, in 2006 from 2005. The increase in Interest and dividend revenues and Interest expense was attributable to higher short-term interest rates coupled with higher levels of certain interest- and dividend-earning assets and interest-bearing liabilities.

Investment Banking Investment banking revenues represent fees and commissions received for underwriting public and private offerings of fixed income and equity securities, fees and other revenues associated with advising clients on M&A activities, as well as other corporate financing activities.

2007 vs. 2006 Investment banking revenues rose to record levels in 2007, increasing 24% from 2006. Record Global Finance—Debt revenues increased 9% from 2006. Leveraged finance revenues were at all time highs, resulting from a very strong first half of the year, which was partially offset by a decline in the second half of the year. Global Finance—Equity net revenues increased 25% compared to 2006 led by exceptional derivative activity as well as strong initial public offering ("IPO") revenue in the first half of the fiscal year. Record Advisory Services revenues increased 45% from 2006, as our completed transaction volume increased 124% for the same period. Included in Investment banking revenue are client-driven derivative and other capital markets-related transactions with Investment Banking clients, which totaled approximately $541 million for 2007, compared to approximately $304 million for 2006.

2006 vs. 2005 Investment banking revenues rose in 2006, increasing 9% from 2005. Global Finance—Debt 2006 net revenues increased 9% from 2005, reflecting significant growth in global origination market volumes. Global Finance—Equity net revenues decreased 1% compared to 2005, despite increased global origination market volumes. Advisory Services net revenues increased 20% from 2005, reflecting higher completed global M&A transaction volumes. Client-driven derivative and other capital markets-related transactions with Investment Banking clients totaled approximately $304 million for 2006, compared to approximately $308 million for 2005.

Asset Management and Other Asset management and other revenues primarily result from asset management activities in the Investment Management business segment.

2007 vs. 2006 Asset management and other revenues rose 23% in 2007 from 2006. The growth in 2007 primarily reflected higher asset management fees attributable to the growth in AUM and management and incentive fees.

2006 vs. 2005 Asset management and other revenues rose 50% in 2006 from 2005. The growth in 2006 primarily reflected higher asset management fees attributable to the growth in AUM, a transition to fee-based rather than commission-based pricing for certain clients, as well as higher private equity management and incentive fees.

NON-INTEREST EXPENSES

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Compensation and benefits	$ 9,494	$ 8,669	$ 7,213	10%	20%
Non-personnel expenses:					
Technology and communications	1,145	974	834	18	17
Brokerage, clearance and distribution fees	859	629	548	37	15
Occupancy	641	539	490	19	10
Professional fees	466	364	282	28	29
Business development	378	301	234	26	29
Other	261	202	200	29	1
Total non-personnel expenses	$ 3,750	$ 3,009	$ 2,588	25%	16%
Total non-interest expenses	$13,244	$11,678	$ 9,801	13%	19%
Compensation and benefits/Net revenues	49.3%	49.3%	49.3%		
Non-personnel expenses/Net revenues	19.5%	17.1%	17.7%		

Non-interest expenses were $13.2 billion, $11.7 billion and $9.8 billion in 2007, 2006 and 2005, respectively. A substantial portion of our non-interest expenses is compensation-related, and a significant portion of our compensation expense represents discretionary bonuses which are impacted by levels of business activity and the structure of our share-based compensation programs. Remaining non-interest expense categories are largely variable, and are expected to change over time with revenue levels, business activity mix and employee headcount levels.

Compensation and benefits Compensation and benefits totaled $9.5 billion, $8.7 billion and $7.2 billion in 2007, 2006, and 2005, respectively. Compensation and benefits expense includes both fixed and variable components. Fixed compensation consists primarily of salaries, benefits and amortization of previous years' deferred equity awards. Variable compensation consists primarily of incentive compensation and commissions. Compensation and benefits expense as a percentage of net revenues was 49.3% for 2007, 2006 and 2005. Employees totaled approximately 28,600, 25,900 and 22,900 at November 30, 2007, 2006 and 2005, respectively.

2007 vs. 2006 Headcount increased 10% in 2007 from 2006, reflecting the increased levels of business activity across the Firm as well as our continued investments in the growth of the franchise, particularly in non–U.S. regions. In connection with the announced restructuring of the Firm's global residential mortgage origination business, employee levels were reduced by approximately 1,900 in the 2007 fiscal year. Fixed compensation in 2007 was 20% greater than 2006 as result of the overall increase in employees. Fixed compensation was approximately $4.6 billion and $3.9 billion in 2007 and 2006, respectively. The 2007 fixed compensation amount of approximately $4.6 billion includes approximately $1.3 billion of amortization expense for stock awards granted in prior periods. Variable compensation was 1% greater in 2007 than 2006.

2006 vs. 2005 Headcount increased 13% in 2006 from 2005, reflecting the increased levels of business activity across the Firm as well as our continued investments to grow the franchise, particularly in non–U.S. regions. Correlated to the increase in employees, fixed compensation in 2006 was 21% greater than 2005. Fixed compensation was approximately $3.9 billion and $3.2 billion in 2006 and 2005, respectively. The 2006 fixed compensation amount of approximately $3.9 billion includes approximately $1.0 billion of amortization expense for stock awards granted in prior periods. The increased level of revenue from 2005 to 2006 resulted in comparatively higher incentive compensation expense. Variable compensation was 20% greater in 2006 than 2005.

Non-personnel expenses Non-personnel expenses totaled $3.8 billion, $3.0 billion and $2.6 billion in 2007, 2006 and 2005, respectively. Non-personnel expenses as a percentage of net revenues were 19.5%, 17.1%, and 17.7% in 2007, 2006, and 2005, respectively.

2007 vs. 2006 Technology and communications expenses rose 18% in 2007 from 2006, reflecting increased costs from the continued expansion and development of our Investment Management platforms and infrastructure. Brokerage, clearance and distribution fees rose 37% in 2007 from 2006, primarily due to higher transaction volumes in Equities Capital Markets and Investment Management products. Occupancy expenses increased 19% in 2007 from 2006, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 27% in 2007 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees. In 2007, Other non-personnel expenses included approximately $62 million associated with the restructuring of the Firm's global residential mortgage origination business.

2006 vs. 2005 Technology and communications expenses rose 17% in 2006 from 2005, reflecting increased costs from the continued expansion and development of our Capital Markets platforms and infrastructure. Brokerage, clearance and distribution fees rose 15% in 2006 from 2005, primarily due to higher transaction volumes in certain Capital Markets and Investment Management products. Occupancy expenses increased 10% in 2006 from 2005, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 29% in 2006 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees.

INCOME TAXES

The provision for income taxes totaled $1.8 billion, $1.9 billion and $1.6 billion in 2007, 2006 and 2005, respectively. The provision for income taxes resulted in effective tax rates of 30.3%, 32.9% and 32.5% for 2007, 2006 and 2005, respectively. The decrease in the effective tax rate in 2007 compared to 2006 was primarily due to a more favorable mix of earnings, which resulted in lower tax expense from foreign operations as compared to the U.S. statutory rate. The increases in the effective tax rates in 2006 and 2005 compared with the prior years were primarily due to an increase in the level of pretax earnings, which minimizes the impact of certain tax benefit items, and in 2006 a net reduction in certain benefits from foreign operations, partially offset by a reduction in state and local taxes due to favorable audit settlements in 2006 and 2005.

BUSINESS ACQUISITIONS, BUSINESS DISPOSITIONS AND STRATEGIC INVESTMENTS

Business Acquisitions During the fiscal year, we completed the business acquisitions listed below. As a result of these acquisitions, the additions to goodwill and intangible assets were approximately $860 million.

- Eagle Energy Partners I, L.P., a Texas-based energy marketing and services company that manages and optimizes supply, transportation, transmission, load and storage portfolios on behalf of wholesale natural gas and power clients.
- Capital Crossing Bank, a state-chartered, FDIC-insured commercial bank that originates small business loans.
- A controlling interest in SkyPower Corp., a Toronto-based early stage wind and solar power generation development company. SkyPower Corp. is consolidated in our results of operations.
- The final contingent payment under a 2004 deferred transaction agreement was made for the remaining 50% of Lehman Brothers Alternative Investment Management ("LBAIM"), which manages fund of hedge fund portfolios and investment products for institutional and high-net-worth private clients. LBAIM was previously consolidated in Holdings' results of operations.
- Grange Securities Limited, a full service Australian broker-dealer specializing in fixed income products.
- LightPoint Capital Management LLC, a leveraged loan investment manager based in Chicago, Illinois, with approximately $3.2 billion in AUM.
- The institutional equities business, including the institutional research group, of Brics Securities Limited, located in India.
- H.A. Schupf, a high net worth asset manager with approximately $2.3 billion in AUM.
- Congress Life Insurance Company, a life insurance company with licenses in 43 U.S. states.
- Dartmouth Capital, a U.K.-based investment advisory firm with approximately $340 million in assets under advisory.
- MNG Securities, an equity securities brokerage firm in Turkey.

A portion of the consideration paid to shareholders of certain entities described above consisted of shares of Holdings' common stock. For more information, see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" in the Quarterly Reports on Form 10-Q for the quarters ended August 31, 2007 and May 31, 2007.

Business Dispositions During the fiscal year, we completed the business dispositions listed below.

- Within Capital Markets we disposed of Neuberger Berman's correspondent clearing business, which decreased our goodwill and intangible assets by approximately $26 million. The gain on sale was not material.
- We incurred non-personnel costs of approximately $62 million, including a goodwill write-down of approximately $27 million, and approximately $30 million of severance expense (reported in Compensation and benefits), in connection with the announced restructuring of the Firm's global residential mortgage origination business, including the closure of BNC Mortgage LLC, our U.S. subprime residential mortgage origination platform, the rescaling of operations in the U.S. and U.K. due to market conditions and product revisions and the closure of our Korean mortgage business. The non-personnel costs were approximately $22 million after-tax and were generally associated with terminated leases.
- Lehman Brothers Bank disposed of a leasing subsidiary, Dolphin Capital Corp., acquired in the acquisition of Capital Crossing. The transaction was an asset sale and amounts were transferred at approximately book value.

Strategic Investments During the fiscal year, we made the following strategic investments.

- Acquired a 20% interest in the D.E. Shaw group, a global investment management firm.
- Purchased an initial 20% interest and a subsequent 5% interest in both Spinnaker Asset Management Limited and Spinnaker Financial Services, part of Spinnaker Capital, an emerging markets investment management firm.
- Purchased a minority interest in Wilton Re Holdings, a U.S. reinsurer that focuses on the reinsurance of mortality risk on life insurance policies.

Subsequent to the fiscal year ended November 30, 2007, we acquired certain assets of Van der Moolen Specialists, including its book of NYSE-listed securities, staff and certain technology. We and certain other broker-dealers entered into a joint-venture and invested in TradeWeb Markets LLC, an electronic securities trading platform owned by Thomson Financial. In addition, in January 2008, we sold our 20% interest in Marble Bar Asset Management LLP, an investment management firm.

In January 2008, we announced the suspension of our wholesale and correspondent mortgage lending activities at our Aurora Loan Services subsidiary. We will continue to originate loans through Aurora's direct lending channel and will maintain Aurora's servicing business. As a result of these suspension activities, we estimate that we will incur one-time expenses, after tax, of approximately $40 million for severance and facilities exit costs.

BUSINESS SEGMENTS

Our operations are organized into three business segments:

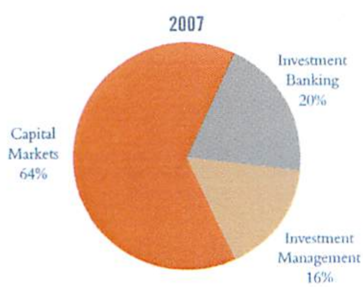
- Capital Markets;
- Investment Banking; and
- Investment Management.

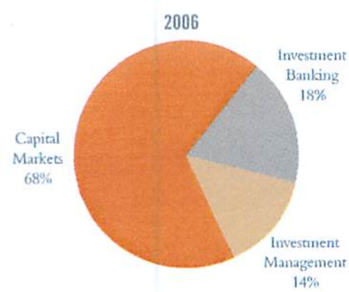
These business segments generate revenues from institutional, corporate, government and high net worth individual clients across each of the revenue categories in the Consolidated Statement of Income. Net revenues and expenses contain certain internal allocations, such as funding costs, that are centrally managed.

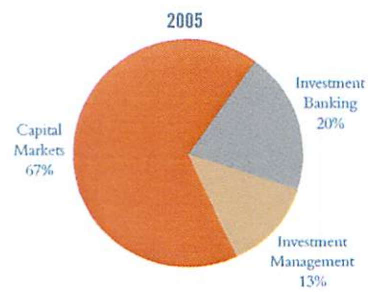
SEGMENT OPERATING RESULTS

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Capital Markets					
Net revenues	$12,257	$12,006	$ 9,807	2%	22%
Non-interest expense	8,058	7,286	6,235	11	17
Income before taxes	$ 4,199	$ 4,720	$ 3,572	(11)%	32%
Investment Banking					
Net revenues	$ 3,903	$ 3,160	$ 2,894	24%	9%
Non-interest expense	2,880	2,500	2,039	15	23
Income before taxes	$ 1,023	$ 660	$ 855	55%	(23)%
Investment Management					
Net revenues	$ 3,097	$ 2,417	$ 1,929	28%	25%
Non-interest expense	2,306	1,892	1,527	22	24
Income before taxes	$ 791	$ 525	$ 402	51%	31%
Total					
Net revenues	$19,257	$17,583	$14,630	10%	20%
Non-interest expense	13,244	11,678	9,801	13	19
Income before taxes	$ 6,013	$ 5,905	$ 4,829	2%	22%

The below charts illustrate the percentage contribution of each business segment to our total net revenues.







CAPITAL MARKETS

Our Capital Markets segment is divided into two components:

Fixed Income We make markets in and trade municipal and public sector instruments, interest rate and credit products, mortgage-related securities and loan products, currencies and commodities. We also originate mortgages and we structure and enter into a variety of derivative transactions. We also provide research covering economic, quantitative, strategic, credit, relative value, index and portfolio analyses. Additionally, we provide financing, advice and servicing activities to the hedge fund community, known as prime brokerage services. We engage in certain proprietary trading activities and in principal investing in real estate that are managed within this component.

Equities We make markets in and trade equities and equity-related products and enter into a variety of derivative transactions. We also provide equity-related research coverage as well as execution and clearing activities for clients. Through our capital markets prime services, we provide prime brokerage services to the hedge fund community. We also engage in proprietary trading activities and private equity and other related investments.

The following table sets forth the operating results of our Capital Markets business segment.

CAPITAL MARKETS RESULTS OF OPERATIONS

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Principal transactions	$ 8,400	$ 9,285	$ 7,393	(10)%	26%
Commissions	1,752	1,420	1,132	23	25
Interest and dividends	41,648	30,264	18,987	38	59
Other	97	105	33	(8)	218
Total revenues	51,897	41,074	27,545	26	49
Interest expense	39,640	29,068	17,738	36	64
Net revenues	12,257	12,006	9,807	2	22
Non-interest expenses	8,058	7,286	6,235	11	17
Income before taxes	$ 4,199	$ 4,720	$ 3,572	(11)%	32%

The following table sets forth net revenues for the two components of our Capital Markets business segment.

CAPITAL MARKETS NET REVENUES

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Fixed Income	$ 5,977	$ 8,447	$7,334	(29)%	15%
Equities	6,280	3,559	2,473	76	44
	$12,257	$12,006	$9,807	2%	22%

2007 vs. 2006 Net revenues totaled $12.3 billion and $12.0 billion in 2007 and 2006, respectively. Overall growth in 2007 Capital Markets' net revenues was driven by net revenues from the Equities component of Capital Markets and a higher contribution from non-U.S. regions, partially offset by declines in net revenues for the Fixed Income component of Capital Markets. Capital Markets net revenues in 2007 include approximately $1.3 billion of gains on debt liabilities which we elected to fair value under SFAS 157 and SFAS 159.

Net revenues in Capital Markets—Fixed Income of $6.0 billion for 2007, decreased 29% compared with $8.4 billion in 2006. Capital Markets—Fixed Income sales credit volumes were $4.8 billion, increasing 40% compared with $3.4 billion in 2006.

The businesses within the Fixed Income component of Capital Markets were the most affected by the market dislocations, risk repricing and de-levering that took place during the second half of the fiscal year. The adverse conditions in the U.S. housing market, changes in the credit markets and continued correction in leveraged loan pricing and certain asset-backed security market segments were generally responsible for the negative variance in Capital Markets—Fixed Income revenues between the benchmark periods. The negative valuation adjustments resulting from the impact of adverse market conditions were partially mitigated by the economic risk management strategies we employed as well as valuation changes on certain debt liabilities and realized gains from the sale of certain leveraged lending positions in the fourth quarter.

The table below presents certain components that generally contributed to the decline of Capital Markets—Fixed Income revenues in 2007 from 2006. These components are presented on a gross basis, as well as a net basis. The net impact represents the revenue impact from the components after adjusting for the impact of certain economic risk management strategies. Caution should be utilized when evaluating the amounts in the following table as they represent only certain components of revenue associated with the general business activities described.

GAIN/(LOSS) IN BILLIONS	YEAR ENDED NOVEMBER 30, 2007 GROSS	NET[1]
Residential mortgage-related positions	$(4.7)	$(1.3)
Commercial mortgage-related positions	(1.2)	(0.9)
Collateralized debt and lending obligation positions[2]	(0.6)	(0.2)
Municipal positions	(0.2)	—
High-yield contingent acquisition loans and facilities[3]	(1.0)	(0.4)
Valuation of debt liabilities[4]	0.9	0.9
	$(6.8)	$(1.9)

[1] The net impact represents the remaining impact from the components after deducting the impact of certain economic risk management strategies. The gross impact excludes any effect of economic risk management strategies.

[2] These valuation adjustments substantially relate to asset-backed collateralized debt obligations including warehoused positions.

[3] Includes approximately $0.3 billion of realized gains from the sale of certain leveraged lending positions that were recognized in our fiscal fourth quarter. The net amount includes certain transaction fees earned, in addition to the impact of certain economic risk management strategies.

[4] Represents the amount of gains on debt liabilities allocated to Capital Markets—Fixed Income and for which we elected to fair value under SFAS 157 and SFAS 159. These gains represent the effect of changes in our credit spread and exclude any interest income or expense as well as any gain or loss from the embedded derivative components of these instruments. Changes in valuations are allocated to the businesses within Capital Markets—Fixed Income in relation to the cash generated by, or funding requirements of, the underlying positions.

Capital Markets—Equities net revenues of $6.3 billion for 2007, increased 76% compared with $3.6 billion in 2006. These results reflected the higher revenue levels reflecting the broader customer franchise developed globally. Capital Markets—Equities sales credit volumes were $3.7 billion, increasing 53% compared with $2.4 billion in 2006. Global market trading volumes rose 29% in 2007 compared to 2006.

The increase in Capital Markets—Equities net revenues reflected increased performance during the fiscal year across all products, with the exception of convertibles, driven by record customer activity and profitable principal trading and investing strategies. Global equity markets advanced year over year. In the latter half of our 2007 fiscal year, volatility was at higher levels relative to the comparable 2006 period. The volatility in the global equity markets led investors to employ risk mitigation strategies, driving global market demand for and strong customer activity in cash and derivative products. 2007 revenues in convertibles declined compared to 2006, mainly due to unprofitable proprietary trading strategies in certain sectors. Capital Markets—Equities prime services' net revenues increased compared to those in the 2006 fiscal year. At the end of the 2007 fiscal year, the number of our prime brokerage services clients increased 20% to 630 from the end of the 2006 fiscal year. Correspondingly, overall client balances were 30% higher at the end of the 2007 fiscal year also compared to balances at the end of the 2006 fiscal year. Capital Markets—Equities revenues in the 2007 fiscal year include gains of approximately $700 million from private equity and other principal investments, including our investment in GLG Partners LP, as well as approximately $400 million in allocated gains from valuation changes in certain of our debt liabilities carried at fair value pursuant to SFAS 157 and SFAS 159.

Net interest revenues for the Capital Markets segment in 2007 increased 68% compared to 2006, primarily attributable to higher short-term U.S. financing rates and a change in the mix of asset composition. Interest and dividends revenue rose 38% in 2007 compared to 2006, and interest expense rose 36% in 2007 compared to the corresponding 2006 period. Non-interest expenses for 2007 increased 11%. Technology and communications expenses increased due to the continued expansion and development of our business platforms and infrastructure. Brokerage, clearance and distribution fees rose primarily due to higher transaction volumes across most Capital Markets products. Professional fees and business development expenses increased due to global growth of the business segment. For the Capital Markets segment, Income before taxes for 2007 decreased 11% compared with 2006 and, correspondingly, pre-tax margins in 2007 were 34% compared to 39% in 2006. During 2007, we announced steps to restructure our residential mortgage origination business, which is a component of our securitized products business within Capital Markets—Fixed Income. See "Business Acquisitions and Dispositions—Business Dispositions" above. The costs associated with these steps are included in the above non interest expenses.

2006 vs. 2005 Capital Markets net revenues increased to $12.0 billion in 2006 from $9.8 billion in 2005, reflecting record performances in both Fixed Income and Equities. On strong performances across most products, Capital Markets—Fixed Income net revenues increased 15% in 2006 from 2005 and Capital Markets—Equities net revenues increased 44% over the same period. Income before taxes totaled $4.7 billion and $3.6 billion in 2006 and 2005, respectively, up 32%. Pre-tax margin was 39% and 36% in 2006 and 2005, respectively.

Our Capital Markets—Fixed Income net revenues grew to a record $8.4 billion in 2006, an increase of 15% from 2005. This growth was attributable to strong client-flow activity and profitable trading strategies, leading to record revenues in most products. The products that contributed most to the increase in revenues year over year included credit, commercial mortgages and real estate and prime brokerage, partially offset by strong, but lower revenues in both interest rate products and residential mortgages.

Capital Markets—Equities net revenues increased 44% to a record level in 2006 on strong client-flow and robust global trading volumes. Global equity indices were up 14% in local currency terms for 2006, helped by strong earnings reports, lower energy prices and the end to the interest rate tightening cycle by central banks. Substantially all equity products in 2006 surpassed their 2005 performance, including gains in cash products, prime brokerage, equity derivatives, convertibles and proprietary and principal activities.

Net interest revenues decreased 4% in 2006 from 2005, primarily due to higher short-term U.S. interest rates, a flattened yield curve and a change in mix of asset composition. Interest and dividends revenue and Interest expense increased 59% and 64%, respectively, in 2006 from 2005 as a result of higher short-term interest rates coupled with higher levels of interest- and dividend-earning assets and interest-bearing liabilities. Non-interest expenses increased to $7.3 billion in 2006 from $6.2 billion in 2005. The growth in Non-interest expenses reflected higher compensation and benefits expense related to improved performance as well as increased technology, occupancy and communications expenses attributable to continued investments in trading platforms, integration of business acquisitions, and higher brokerage and clearance costs and professional fees from increased business activities.

INVESTMENT BANKING

We take an integrated approach to client coverage, organizing bankers into industry, product and geographic groups within our Investment Banking segment. Business services provided to corporations and governments worldwide can be separated into:

Global Finance We serve our clients' capital raising needs through underwriting, private placements, leveraged finance and other activities associated with debt and equity products.

Advisory Services We provide business advisory services with respect to mergers and acquisitions, divestitures, restructurings and other corporate activities.

The following table sets forth the operating results of our Investment Banking segment.

INVESTMENT BANKING RESULTS OF OPERATIONS[1]

IN MILLIONS	YEAR ENDED NOVEMBER 30, 2007	2006	2005	PERCENT CHANGE 2007/2006	2006/2005
Global Finance—Debt	$1,551	$1,424	$1,304	9%	9%
Global Finance—Equity	1,015	815	824	25	(1)
Advisory Services	1,337	921	766	45	20
Total revenues	$3,903	$3,160	$2,894	24%	9%
Non-interest expenses	2,880	2,500	2,039	15	23
Income before taxes	$1,023	$ 660	$ 855	55%	(23)%

The following table sets forth our Investment Banking transaction volumes.[2] These volumes do not always directly correlate to Investment Banking revenues because they do not necessarily correspond to the amount of securities actually underwritten and only include certain reported underwriting activity and because revenue rates vary among transactions.

IN MILLIONS	YEAR ENDED NOVEMBER 30, 2007	2006	2005	PERCENT CHANGE 2007/2006	2006/2005
Global Finance—Debt	$368,422	$438,026	$398,955	(16)%	10%
Global Finance—Equity	29,646	28,306	24,314	5	16
Advisory Services—Completed	849,265	378,448	313,667	124	21
Advisory Services—Announced	793,685	533,238	419,082	49	27

[1] Investment banking revenues are net of related underwriting expenses.

[2] Debt and equity underwriting volumes, as reported by Thomson Financial, an operating unit of The Thomson Corporation, are based on full credit for single-book managers and equal credit for joint-book managers. Debt underwriting volumes include both publicly registered and Rule 144A issues of high grade and high yield bonds, sovereign, agency and taxable municipal debt, non-convertible preferred stock and mortgage- and asset-backed securities. Equity underwriting volumes include both publicly registered and Rule 144A issues of common stock and convertibles. Because publicly reported debt and equity underwriting volumes do not necessarily correspond to the amount of securities actually underwritten and do not include certain private placements and other transactions, and because revenue rates vary among transactions, publicly reported debt and equity underwriting volumes may not be indicative of revenues in a given period. Additionally, because Advisory Services volumes are based on full credit to each of the advisors in a transaction, and because revenue rates vary among transactions, Advisory Services volumes may not be indicative of revenues in a given period.

2007 vs. 2006 Investment Banking net revenues totaled $3.9 billion and $3.2 billion in 2007 and 2006, respectively, an increase of 24% in 2007 from 2006, reflecting record revenues for Global Finance—Debt, Global Finance—Equity and Advisory Services and a generally higher level of cross-border and international business activity. Non-interest expenses rose 15% in 2007 from 2006. This increase was attributable to an increase in compensation and benefits expense related to an increased number of employees and higher Non-personnel expenses. Income before taxes increased 55% in 2007 to $1.0 billion from $660 million in 2006, and, correspondingly, pre-tax margins in 2007 were 26% compared to 21% in 2006.

Global Finance—Debt origination net revenues were $1.6 billion in 2007, increasing 9% from 2006. These results were driven, in part, by revenues from leveraged finance which had a record first half of 2007 but fell significantly in the latter half of 2007 as a number of financial sponsor-related transactions were cancelled or delayed, particularly in the leveraged loan market. These conditions also caused certain lending commitments to be executed at lower fee levels. Publicly reported global debt origination market volumes decreased 3% in 2007 over 2006, with our origination market volumes decreasing 16% over the same period. Our debt origination fee backlog of $141 million at November 30, 2007 decreased 43% from November 30, 2006. Debt origination backlog may not be indicative of the level of future business due to the frequent use of the shelf registration process and changes in overall market conditions. For the calendar year 2007, our market ranking for publicly reported global debt origination was sixth with a 5.4% share, down from a rank of fourth with a 6.2% share in calendar year 2006.

Global Finance—Equity net revenues increased 25% in 2007 to a record $1.0 billion from 2006 revenues of $815 million, consistent with a 23% increase in industry-wide global equity origination market volumes. The increase in 2007 net revenues also included strong, customer-driven derivative-related activity, which more than doubled from 2006 levels. On a sequential year basis, net revenues associated with private placement transactions and accelerated stock repurchases increased 72%. IPO net revenues increased 38% compared to the 2006 fiscal year and IPO net revenues increased within all geographic segments. Our IPO market volume for 2007 increased 17% compared to fiscal year 2006, slightly lower than the 19% market increase. Our equity-related fee backlog (for both filed and unfiled transactions) at November 30, 2007 was approximately $316 million, up 11% from November 30, 2006; however, that measure may not be indicative of the level of future business depending on changes in overall market conditions. For the calendar year 2007, our market ranking for publicly reported global equity origination was ninth with a 3.0% share, consistent with our rank in calendar year 2006 during which we had a 3.5% market share.

Advisory Services revenues were a record $1.3 billion in 2007, up 45% from then-record revenues in 2006. Industry-wide completed and announced transaction volumes increased 32% and 27%, respectively, in 2007 from 2006, while our completed and announced volumes increased 124% and 49%, respectively, in the same comparative period. Our global market share for publicly reported completed and announced transactions increased to 21% and 17%, respectively, for calendar 2007, up 16% for both measures, in calendar year 2006. Our M&A fee backlog at November 30, 2007 was $374 million, up 54% from November 30, 2006; however, that measure may not be indicative of the level of future business depending on changes in overall market conditions. For the calendar year 2007, our market ranking for completed transactions was sixth with a 20.9% share, up from a rank of seventh with a 15.8% share in calendar year 2006. Our market ranking for announced transactions was ninth with a 17.3% share, down from a rank of eighth with a 15.5% share in calendar year 2006.

2006 vs. 2005 Investment banking revenues totaled $3.2 billion and $2.9 billion in 2006 and 2005, respectively, representing a 9% increase from the prior fiscal year. Non-interest expenses rose 23% in 2006 from 2005, attributable to an increase in compensation and benefits expense related to an increased number of employees and higher revenues, as well as higher non-personnel expenses from increased business activity. As a result, income before taxes declined 23% in 2006 to $660 million from $855 million in 2005.

Global Finance—Debt revenues were a record $1.4 billion in 2006, increasing 9% over 2005 as investors took advantage of continued low interest rates, tight credit spreads and a flattened yield curve. Revenues also increased significantly over 2005 on relatively flat volumes due to higher margins on several large transactions. Partially offsetting these factors was a lower level of client-driven derivative and other capital markets-related transactions with our investment banking clients which totaled $222 million in 2006, compared with $318 million in 2005. Publicly reported global debt origination market volumes increased 17% in 2006 over 2005, with our origination market volumes increasing 8% over the same period. Our debt origination fee backlog of $245 million at November 30, 2006 increased 13% from November 30, 2005. For the calendar year 2006, our market ranking for publicly reported global debt originations was fourth with a 6.2% share, down from a rank of third with a 6.7% share in calendar year 2005.

Global Finance—Equity revenues declined 1% in 2006 to $815 million from record 2005 revenues, despite a 35% increase in industry-wide global equity origination market volumes. Revenues in 2006 reflected strength in IPO activities, offset by lower revenues from the Asia region, which benefited from several large transactions in 2005. Our IPO market volume for 2006 increased 25% from fiscal year 2005, compared to the overall market's increase of 63%. Our equity-related fee backlog (for both filed and unfiled transactions) at November 30, 2006 was approximately $286 million. Our market share for publicly reported global equity underwriting transactions decreased to 3.5% in calendar 2006 from 4.8% for calendar year 2005.

Advisory Services revenues were $921 million in 2006, up 20% from 2005. Industry-wide completed and announced transaction volumes increased 31% and 34%, respectively, in 2006 from 2005, while our completed and announced volumes increased 21% and 27%, respectively, from the same comparative period. M&A volumes rose during the period due to increasing equity markets, strong corporate profitability and balance sheets, and available capital raised by financial sponsors. Our global market share for publicly reported completed transactions increased to 15.8% for calendar 2006, up from 13.4% in calendar year 2005. Our M&A fee backlog at November 30, 2006 was $243 million down 1% from November 30, 2005.

INVESTMENT MANAGEMENT

The Investment Management business segment consists of:

Asset Management We provide customized investment management services for high net worth clients, mutual funds and other small and middle market institutional investors. Asset Management also serves as general partner for private equity and other alternative investment partnerships and has minority stake investments in certain alternative investment managers.

Private Investment Management We provide investment, wealth advisory and capital markets execution services to high net worth and middle market institutional clients.

The following table sets forth the operating results of our Investment Management segment.

INVESTMENT MANAGEMENT RESULTS OF OPERATIONS

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Principal transactions	$ 797	$ 517	$ 418	54%	24%
Commissions	719	630	596	14	6
Interest and dividends	45	20	56	125	(64)
Asset management and other	1,642	1,308	911	26	44
Total revenues	3,203	2,475	1,981	29	25
Interest expense	106	58	52	83	12
Net revenues	3,097	2,417	1,929	28	25
Non-interest expenses	2,306	1,892	1,527	22	24
Income before taxes	$ 791	$ 525	$ 402	51%	31%

The following table sets forth our Asset Management and Private Investment Management net revenues.

INVESTMENT MANAGEMENT NET REVENUES

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
Asset Management	$1,877	$1,432	$1,026	31%	40%
Private Investment Management	1,220	985	903	24	9
	$3,097	$2,417	$1,929	28%	25%

The following table sets forth our AUM by asset class.

COMPOSITION OF ASSETS UNDER MANAGEMENT

	AT NOVEMBER 30,			PERCENT CHANGE	
IN BILLIONS	2007	2006	2005	2007/2006	2006/2005
Equity	$ 107	$ 95	$ 75	13%	27%
Fixed income	75	61	55	23	11
Money markets	66	48	29	38	66
Alternative investments	34	21	16	62	31
	$ 282	$ 225	$ 175	25%	29%

The following table sets forth a summary of the changes in our AUM.

CHANGES IN ASSETS UNDER MANAGEMENT

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN BILLIONS	2007	2006	2005	2007/2006	2006/2005
Opening balance	$ 225	$ 175	$ 137	29%	28%
Net additions	41	35	26	17	35
Net market appreciation	16	15	12	7	25
Total increase	57	50	38	14	32
Assets Under Management	$ 282	$ 225	$ 175	25%	29%

2007 vs. 2006 Investment Management net revenues ended the fiscal year up 28% compared to 2006, as Asset Management and Private Investment Management both achieved record results in 2007. Non-interest expense of $2.3 billion for 2007 increased 22% compared with 2006, resulting from higher levels of discretionary compensation resulting from increased net revenues and numbers of employees. Non-personnel expenses also increased, primarily due to higher brokerage, clearing, exchange and distribution fees. The continued expansion of this business platform globally contributed to the comparative increases in Non-interest and Non-personnel expenses. Income before taxes of $791 million increased 51% compared with 2006. In part, this increase was reflective of higher pre-tax margins associated with revenue generated from minority stake investments in alternative asset managers. Pre-tax margins in 2007 were 26% compared to 22% in 2006.

Asset Management net revenues of $1.9 billion in 2007 increased by 31% from 2006, reflecting significantly higher management fees, principally due to strong growth in AUM, and higher incentive fees. During the fiscal year, AUM increased $57 billion or 25% to approximately $282 billion. 72% of the increase was a result of net inflows across all asset categories.

Private Investment Management net revenues of $1.2 billion increased 24% in 2007 from 2006, driven both by higher equity-related activity, especially within the volatility and cash businesses, and higher fixed income-related activity, especially in credit products, securitized products and global rates business. Fixed income-related activity in the second half of the fiscal year slowed as clients became less active in fixed income-related products as a result of higher volatility in the global markets and credit concerns in certain asset classes.

2006 vs. 2005 Net revenues totaled $2.4 billion and $1.9 billion in 2006 and 2005, respectively, representing a 25% increase, as both Asset Management and Private Investment Management achieved then record results in 2006. Non-interest expenses totaled $1.9 billion and $1.5 billion in 2006 and 2005, respectively. The 24% increase in Non-interest expense was driven by higher compensation and benefits associated with a higher level of earnings and headcount, as well as increased Non-personnel expenses from continued expansion of the business, especially into non–U.S. regions. Income before taxes increased 31% in 2006 to $525 million from $402 million in 2005. Pre-tax margin was 22% and 21% in 2006 and 2005, respectively.

Asset Management net revenues of $1.4 billion in 2006 increased by 40% from 2005, driven by a 29% increase in AUM and strong revenues from our growing alternative investment offerings, which contributed higher incentive fees in 2006 compared to 2005. AUM increased to a record $225 billion at November 30, 2006, up from $175 billion at November 30, 2005, with 70% of the increase resulting from net inflows.

Private Investment Management net revenues of $985 million increased 9% in 2006 from 2005, driven by higher equity-related activity, especially within the volatility and cash businesses. Fixed income-related activity was relatively flat in 2006 compared to 2005 as a result of clients' asset reallocations into equity products.

GEOGRAPHIC REVENUES

We organize our operations into three geographic regions:

- Europe and the Middle East, inclusive of our operations in Russia and Turkey;
- Asia-Pacific, inclusive of our operations in Australia and India; and
- the Americas.

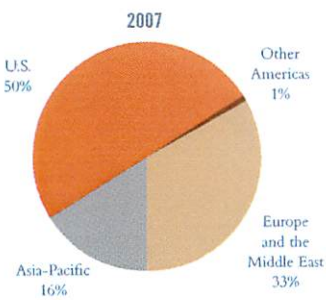
Net revenues presented by geographic region are based upon the location of the senior coverage banker or investment advisor in the case of Investment Banking or Asset Management, respectively, or where the position was risk managed within Capital Markets and Private Investment Management. Certain revenues associated with U.S. products and services that result from relationships with international clients have been classified as international revenues using an allocation process. In addition, expenses contain certain internal allocations, such as regional transfer pricing, which are centrally managed. The methodology for allocating the Firm's revenues and expenses to geographic regions is dependent on the judgment of management.

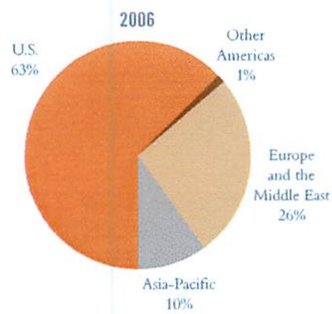
The following presents, in management's judgment, a reasonable representation of each region's contribution to our operating results.

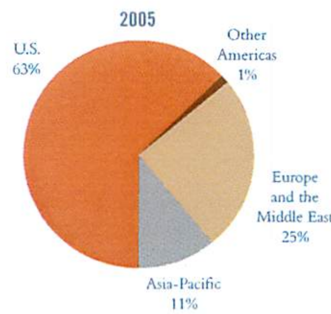
GEOGRAPHIC OPERATING RESULTS

	YEAR ENDED NOVEMBER 30,			PERCENT CHANGE	
IN MILLIONS	2007	2006	2005	2007/2006	2006/2005
EUROPE AND THE MIDDLE EAST					
Net revenues	$ 6,296	$ 4,536	$ 3,601	39%	26%
Non-interest expense	4,221	3,303	2,689	28	23
Income before taxes	2,075	1,233	912	68	35
ASIA-PACIFIC					
Net revenues	3,145	1,809	1,650	74	10
Non-interest expense	1,831	1,191	872	54	37
Income before taxes	1,314	618	778	113	(21)
AMERICAS					
U.S.	9,634	11,116	9,270	(13)	20
Other Americas	182	122	109	49	12
Net revenues	9,816	11,238	9,379	(13)	20
Non-interest expense	7,192	7,184	6,240	—	15
Income before taxes	2,624	4,054	3,139	(35)	29
TOTAL					
Net revenues	19,257	17,583	14,630	10	20
Non-interest expense	13,244	11,678	9,801	13	19
Income before taxes	$ 6,013	$ 5,905	$ 4,829	2%	22%

The below charts illustrate the contribution percentage of each geographic region to our total net revenues.







2007 vs. 2006 Non-Americas net revenues rose 49% in 2007 from 2006 to a record $9.4 billion, representing 49% of total net revenues in 2007 and 36% in 2006. The increase in 2007 net revenues was due to the continued growth in Capital Markets as well as the continued expansion of our Investment Management business in both the Europe and the Middle East and the Asia-Pacific regions. Non-U.S. net revenues represented 50% and 37% of total net revenues for the 2007 and 2006 fiscal years.

Net revenues in Europe and the Middle East rose 39% in 2007 from 2006, reflecting record performance in Capital Markets—Equities, Investment Banking and Investment Management. In Capital Markets—Equities, higher revenues were driven by improved risk and trading strategies, as well as record customer flow activity, increased volume and gains from principal investment activities. In Investment Banking, higher net revenues reflected record results in leveraged finance revenue and advisory revenue, as well as equity origination. In Investment Management, higher net revenues reflected a significant increase in AUM. Income before taxes for Europe and the Middle East increased 68%.

Net revenues in Asia-Pacific rose 74% in 2007 from 2006, reflecting strong performance in all business segments. Capital Markets results were driven by strong performances in execution services and volatility based upon strong customer-demand as Asian equity markets outperformed other regions in the fiscal year. Investment Banking results were driven

by strong IPO activity and debt-related transactions. Investment Management results are reflective of our continued development of this business segment in this geographic sector. Income before taxes for Asia-Pacific increased 113%.

2006 vs. 2005 Non–Americas net revenues rose 21% in 2006 from 2005 to $6.3 billion, representing 36% of total net revenues both in 2006 and 2005. The increase in 2006 net revenues was due to the continued growth in Capital Markets as well as the continued expansion of our Investment Management business in both Europe and Asia. Net revenues in Europe and the Middle East rose 26% in 2006 from 2005, reflective of higher revenues in Capital Markets, growth in Investment Management and strong results in Investment Banking. In Capital Markets—Fixed Income, higher revenues were driven by credit products, securitized products and our real estate business. In Capital Markets—Equities, higher net revenues reflect strong results in equity derivatives and equity prime brokerage services. Income before taxes for Europe and the Middle East increased 35%. Net revenues in Asia-Pacific rose 10% in 2006 from 2005, reflective of higher revenues in Capital Markets and the growth in Investment Management, partially offset by declining revenues in Investment Banking. Capital Markets net revenues increased in 2006 primarily from strong performances in commercial mortgages and real estate, equity derivatives and improved equity trading strategies, partially offset by lower revenues from interest rate products. Income before taxes for Asia-Pacific decreased 21%.

LIQUIDITY, FUNDING AND CAPITAL RESOURCES

We establish and monitor compliance with guidelines for the level and composition of our liquidity pool and asset funding, the makeup and size of our balance sheet and the utilization of our equity.

During the latter half of our 2007 fiscal year, the global capital markets experienced a significant contraction in available liquidity as the adverse market environment experienced in our third quarter continued into our fourth quarter and deteriorated further in November 2007. Despite infusions of liquidity by central banks into the financial system, broad asset classes, particularly U.S. subprime residential mortgages and structured credit products, remained thinly traded throughout this period. Notwithstanding these global market conditions, we ended the period with a very strong liquidity position. At November 30, 2007, our liquidity pool was approximately $35 billion, up from approximately $31 billion at November 30, 2006 and down slightly from approximately $36 billion at the end of the third quarter of the 2007 fiscal year. Long-term capital (long-term borrowings, excluding borrowings with remaining contractual maturities within twelve months of the financial statement date, and total stockholders' equity) was at approximately $146 billion at the end of 2007 fiscal year, up from approximately $100 billion at November 30, 2006 and $142 billion at the end of the third quarter of the 2007 fiscal year. Also during 2007, Holdings' and LBI's credit ratings were upgraded by two credit rating agencies.

LIQUIDITY

Liquidity pool We maintain a liquidity pool available to Holdings that covers expected cash outflows for twelve months in a stressed liquidity environment. In assessing the required size of our liquidity pool, we assume that assets outside the liquidity pool cannot be sold to generate cash, unsecured debt cannot be issued, and any cash and unencumbered liquid collateral outside of the liquidity pool cannot be used to support the liquidity of Holdings. Our liquidity pool is sized to cover expected cash outflows associated with the following items:

- The repayment of approximately $21.5 billion of unsecured debt, which is all of the unsecured debt maturing in the next twelve months issued by Holdings and our unregulated entities, excluding approximately $3.7 billion of structured note self-funding trades that are measured at fair value and managed by business units through matched, unencumbered asset portfolios outside of Holdings' liquidity pool. Our regulated entities each maintain their own liquidity pool sized to cover the repayment of the approximately $2.3 billion in aggregate of unsecured debt maturing in the next twelve months issued by those regulated entities.
- The funding of commitments to extend credit made by Holdings and certain unregulated subsidiaries based on a probabilistic model. The funding of commitments to extend credit made by our regulated subsidiaries (including our banks) is covered by the liquidity pools maintained by these regulated subsidiaries. For additional information, see "Contractual Obligations and Lending-Related Commitments" below and Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.
- The anticipated impact of adverse changes on secured funding–either in the form of a greater difference between the market and pledge value of assets (also known as "haircuts") or in the form of reduced borrowing availability.
- The anticipated funding requirements of equity repurchases as we manage our equity base (including offsetting the dilutive effect of our employee incentive plans). See "Equity Management" below.

In addition, the liquidity pool is sized to cover the impact of a one notch downgrade of Holdings' long-term debt ratings, including the additional collateral that would be required to be posted against derivative contracts and other secured funding arrangements. See "Credit Ratings" below.

The liquidity pool is invested in liquid instruments, including cash equivalents, G-7 government bonds and U.S. agency securities, investment grade asset-backed securities and other liquid securities that we believe have a highly reliable pledge value. We calculate our liquidity pool on a daily basis.

Our estimated values of the liquidity pool and other unencumbered (*i.e.*, unpledged) asset portfolios available are:

IN BILLIONS	AT NOVEMBER 30, 2007	2006
Unregulated		
Holdings liquidity pool at pledge value	$ 34.9	$ 31.4
Other unencumbered assets at market value	63.2	39.4
	98.1	70.8
Regulated[1]		
Unencumbered assets held by bank entities at market value[2]	33.2	22.3
Unencumbered assets held by non-bank entities at market value	62.3	50.8
	95.5	73.1
Total	$193.6	$143.9

(1) Our regulated subsidiaries, such as our U.S. and non-U.S. broker-dealers and bank entities, maintain their own liquidity pools to cover their stand-alone expected annualized cash funding needs in a stressed liquidity environment. Unencumbered assets in regulated entities are generally restricted from transfer and therefore considered not available to support the liquidity needs of Holdings' or other unregulated entities.

(2) Our deposit-taking bank entities consist of two U.S. institutions and one in Germany.

Funding of assets We fund assets based on their liquidity characteristics, and utilize cash capital[1] to provide financing for our long-term funding needs. Our funding strategy incorporates the following factors:

- Liquid assets (*i.e.*, assets for which we believe a reliable secured funding market exists across all market environments including government bonds, U.S. agency securities, corporate bonds, asset-backed securities and equity securities) are primarily funded on a secured basis.
- Secured funding "haircuts" are funded with cash capital.
- Illiquid assets (*e.g.*, fixed assets, intangible assets and margin postings) and less liquid inventory positions (*e.g.*, derivatives, private equity investments, certain corporate loans, certain commercial mortgages and real estate positions) are funded with cash capital.
- Certain unencumbered assets that are not part of the liquidity pool irrespective of asset quality are also funded with cash capital. These assets are typically unencumbered because of operational and asset-specific factors (*e.g.*, securities moving between depots). We do not assume a change in these factors during a stressed liquidity event.

As part of our funding strategy, we also take steps to mitigate our main sources of contingent liquidity risk as follows:

- Commitments to extend credit — Cash capital is utilized to cover a probabilistic estimate of expected funding of commitments to extend credit. For a further discussion of our commitments, see "Contractual Obligations and Lending-Related Commitments" in this MD&A and Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.
- Ratings downgrade — Cash capital is utilized to cover the liquidity impact of a one-notch downgrade on Holdings. A ratings downgrade would increase the amount of collateral to be posted against our derivative contracts and other secured funding arrangements. For a further discussion of credit ratings and the potential impacts of ratings downgrades, see "Credit Ratings" below.
- Client financing—We provide secured financing to our clients typically through repurchase and prime broker agreements. These financing activities can create liquidity risk if the availability and terms of our own secured borrowing agreements adversely change during a stressed liquidity event and we are unable to reflect these changes in our client financing agreements. We mitigate this risk by entering into term secured borrowing agreements, in which we can fund different types of collateral at pre-determined collateralization levels, and by maintaining liquidity pools at our regulated broker-dealers.

Our policy is to operate with an excess of long-term funding sources over our long-term funding requirements ("cash capital surplus"). We seek to maintain a cash capital surplus at Holdings of at least $2.0 billion. As of November 30, 2007, our cash capital surplus at Holdings increased to $8.0 billion, up from $6.0 billion at November 30, 2006. Additionally, at November 30, 2007 and 2006, our cash capital surplus in our regulated entities was approximately $12.6 billion and $10.0 billion, respectively.

We hedge the majority of foreign exchange risk associated with investments in subsidiaries in non–U.S. dollar currencies using foreign currency-denominated long-term debt and forwards.

Diversification of funding sources We seek to diversify our funding sources. We issue long-term debt in multiple currencies and across a wide range of maturities to tap many investor bases, thereby reducing our reliance on any one source.

- During 2007, we issued $86.3 billion of long-term borrowings. Long-term borrowings (less current portion) increased to $123.2 billion at November 30, 2007, up from $81.2 billion at

1 Cash capital consists of stockholders' equity, the estimated sustainable portion of core deposit liabilities at our bank subsidiaries, and liabilities with remaining term of one year or more.

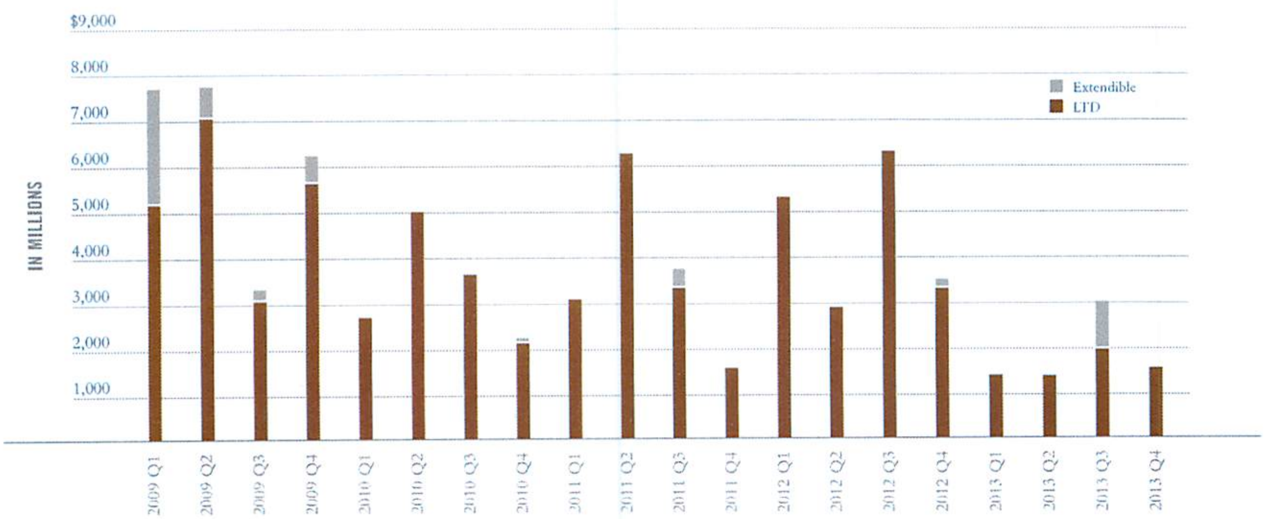
November 30, 2006 principally to support the growth in our assets as well as to pre-fund a portion of our 2008 maturities. The weighted-average maturities of our long-term borrowings were 7.1 and 6.3 years at November 30, 2007 and 2006, respectively.

- We diversify our issuances geographically to minimize refinancing risk and broaden our debt-holder base. As of November 30, 2007, 54% of our long-term debt was issued outside the United States. In comparison, as of November 30, 2006, 49% of our long-term debt was issued outside the United States.
- In order to minimize refinancing risk, we establish limits (stated as percentages of outstanding long-term borrowings) on our long-term borrowings anticipated to mature within any quarterly (12.5%), half-year (17.5%) and full-year (30.0%) interval. At November 30, 2007, those limits were $15.4 billion, $21.6 billion and $37.0 billion, respectively. If we were to operate with debt above these levels, we would not include the additional amount as a source of cash capital.
- We typically issue in sufficient size to create a liquid benchmark issuance (*i.e.*, sufficient size to be included in the Lehman Bond Index, a widely used index for fixed income asset managers).

Long-term debt is accounted for in our long-term-borrowings maturity profile at its contractual maturity date if the debt is redeemable at our option. Long-term debt that is repayable at par at the holder's option is included in these limits at its earliest redemption date. Extendible issuances (which mature on an initial specified maturity date, unless the debt holders elect to extend the term of the note for a period specified in the note) are included in these limits at their earliest maturity date.

The quarterly long-term borrowings maturity schedule over the next five years at November 30, 2007 is as follows:

LONG-TERM BORROWINGS MATURITY PROFILE CHART[1]



(1) Included in long-term debt is $5.1 billion of certain hybrid financial instruments with contingent early redemption features linked to market prices or other triggering events (*e.g.*, the downgrade of a reference obligation underlying a credit–linked note). In the above maturity table, these notes are shown at their contractual maturity. In determining the cash capital value of these notes, however, we excluded the portion reasonably expected to mature within twelve months ($2.2 billion) from our cash capital sources at November 30, 2007.

- We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a $2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks that expires in February 2009. In addition, we maintain a $2.5 billion multi-currency unsecured, committed revolving credit facility ("European Facility") with a syndicate of banks for Lehman Brothers Bankhaus AG ("Bankhaus") and Lehman Brothers Treasury Co. B.V. that expires in April 2010. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. We draw on both of these facilities from time to time in the normal course of conducting our business. As of November 30, 2007, there were no outstanding borrowings against either Holdings' credit facility or the European Facility.
- We have established a $2.4 billion conduit that issues secured liquidity notes to pre-fund high grade loan commitments. This is fully backed by a triple-A rated, third-party, one-year revolving liquidity back stop, which we have in turn fully backed. This conduit is consolidated in Holdings' results of operations.

- We participate in an A-1/P-1-rated multi-seller conduit. This multi-seller issues secured liquidity notes to provide financing. We use this conduit for purposes of funding a portion of our contingent acquisition commitments. At November 30, 2007, we were contingently committed to providing $1.6 billion of liquidity if the conduit is unable to remarket the secured liquidity notes upon their maturity, generally, one year after a failed remarketing event. This conduit is not consolidated in Holdings' results of operations.
- We own three bank entities: Lehman Brothers Bank, a U.S.-based thrift institution, Lehman Brothers Commercial Bank, a U.S.-based industrial bank, and Bankhaus. These regulated bank entities operate in a deposit-protected environment and are able to source low-cost unsecured funds that are primarily term deposits. These bank entities are generally insulated from a company-specific or market liquidity event, thereby providing a reliable funding source for their mortgage products and selected loan assets and increasing our consolidated funding diversification. Overall, these bank entities have raised $29.4 billion and $21.4 billion of customer deposit liabilities as of November 30, 2007 and 2006, respectively.
- Bank facilities provide us with further diversification and flexibility. For example, we draw on our committed syndicated credit facilities described above on a regular basis (typically 25% to 50% of the time on a weighted-average basis) to provide us with additional sources of long-term funding on an as-needed basis. We have the ability to prepay and redraw any number of times and to retain the proceeds for any term up to the maturity date of the facility. As a result, we see these facilities as having the same liquidity value as long-term borrowings with the same maturity dates, and we include these borrowings in our reported long-term borrowings at the facility's stated final maturity date to the extent that they are outstanding as of a reporting date.

Funding action plan We have developed and regularly update a Funding Action Plan, which represents a detailed action plan to manage a stress liquidity event, including a communication plan for regulators, creditors, investors and clients. The Funding Action Plan considers two types of liquidity stress events—a Company-specific event, where there are no issues with overall market liquidity and a broader market-wide event, which affects not just our Company but the entire market.

In a Company-specific event, we assume we would lose access to the unsecured funding market for a full year and have to rely on the liquidity pool available to Holdings to cover expected cash outflows over the next twelve months.

In a market liquidity event, in addition to the pressure of a Company-specific event, we also assume that, because the event is market wide, additional counterparties to whom we have extended liquidity facilities draw on these facilities. To mitigate the effect of a market liquidity event, we have developed access to additional liquidity sources beyond the liquidity pool at Holdings, including unutilized funding capacity in our bank entities and unutilized capacity in our bank facilities. See "Funding of assets" above.

We perform regular assessments of our funding requirements in stress liquidity scenarios to best ensure we can meet all our funding obligations in all market environments.

Legal entity structure Our legal entity structure can constrain liquidity available to Holdings. Some of our legal entities, particularly our regulated broker-dealers and bank entities, are restricted in the amount of funds that they can distribute or lend to Holdings. For a further discussion, see Note 15, "Regulatory Requirements," to the Consolidated Financial Statements.

Certain regulated subsidiaries are funded with subordinated debt issuances and/or subordinated loans from Holdings, which are counted as regulatory capital for those subsidiaries. Our policy is to fund subordinated debt advances by Holdings to subsidiaries for use as regulatory capital with long-term debt issued by Holdings having a maturity at least one year greater than the maturity of the subordinated debt advance.

CREDIT RATINGS

During the 2007 calendar year, Holdings' and LBI's credit ratings were upgraded by two of the rating agencies. Like other companies in the securities industry, we rely on external sources to finance a significant portion of our day-to-day operations. The cost and availability of unsecured financing are affected by our short-term and long-term credit ratings. Factors that may be significant to the determination of our credit ratings or otherwise affect our ability to raise short-term and long-term financing include our profit margin, our earnings trend and volatility, our cash liquidity and liquidity management, our capital structure, our risk level and risk management, our geographic and business diversification, and our relative positions in the markets in which we operate. Deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade our credit ratings. This may increase the cost of, or possibly limit our access to, certain types of unsecured financings and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. In addition, our debt ratings can affect certain capital markets revenues, particularly in those businesses where longer-term counterparty performance is critical, such as over-the-counter ("OTC") derivative transactions, including credit derivatives and interest rate swaps.

The current ratings of Holdings and LBI short- and long-term senior borrowings are as follows:

CREDIT RATINGS

	HOLDINGS		LBI	
	SHORT-TERM	LONG-TERM	SHORT-TERM	LONG-TERM
Standard & Poor's Ratings Services	A-1	A+	A-1+	AA-
Moody's Investors Service	P-1	A1	P-1	Aa3
Fitch Ratings	F-1+	AA-	F-1+	AA-
Dominion Bond Rating Service Limited[1]	R-1 (middle)	AA (low)	R-1 (middle)	AA

[1] On December 21, 2007, Dominion Bond Rating Service Limited upgraded Holdings' long-term senior borrowings rating to AA (low) from A (high) and upgraded LBI's long-term senior borrowings rating to AA from AA (low).

At November 30, 2007, counterparties had the right to require us to post additional collateral pursuant to derivative contracts and other secured funding arrangements of approximately $2.4 billion. Additionally, at that date we would have been required to post additional collateral pursuant to such arrangements of approximately $0.1 billion in the event we were to experience a downgrade of our senior debt rating of one notch and a further $4.6 billion in the event we were to experience a downgrade of our senior debt rating of two notches.

CASH FLOWS

Cash and cash equivalents of $7.3 billion at November 30, 2007 increased by $1.3 billion from $6.0 billion at November 30, 2006, as net cash provided by financing activities of $48.6 billion was offset by net cash used in operating activities of $45.6 billion and net cash used in investing activities of $1.7 billion.

BALANCE SHEET

Assets The assets on our balance sheet consist primarily of Cash and cash equivalents, Financial instruments and other inventory positions owned, and collateralized agreements. At November 30, 2007, our total assets increased by 37% to $691.1 billion from $503.5 billion at November 30, 2006, due to an increase in secured financing transactions and net assets. Net assets at November 30, 2007 increased $104.0 billion from the prior year due to increases across most inventory categories, as well as an increase in customer secured receivables, as we continued to grow the Firm. Our calculation of net assets excludes from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized lending agreements; and (iii) identifiable intangible assets and goodwill. We believe net assets to be a more useful measure of our assets than total assets because it excludes certain low-risk, non-inventory assets. Our calculation of net assets may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

At November 30, 2007 and 2006 our total and net assets were comprised of the following items:

NET ASSETS

IN MILLIONS	AT NOVEMBER 30, 2007	2006
Total assets	$ 691,063	$ 503,545
Cash and securities segregated and on deposit for regulatory and other purposes	(12,743)	(6,091)
Collateralized lending agreements	(301,234)	(225,156)
Identifiable intangible assets and goodwill	(4,127)	(3,362)
Net assets	$ 372,959	$ 268,936

Included within net assets are real estate held for sale, certain high yield instruments and private equity and other principal investments.

Real estate held for sale We invest in real estate through direct investments in equity and debt. We record real estate held for sale at the lower of its carrying amount or fair value less cost to sell. The assessment of fair value less cost to sell generally requires the use of management estimates and generally is based on property appraisals provided by third parties and also incorporates an analysis of the related property cash flow projections. We had real estate investments of approximately $21.9 billion and $9.4 billion at November 30, 2007 and 2006, respectively. Because portions of these assets have been financed on a non-recourse basis, our net investment position was limited to $12.8 billion and $5.9 billion at November 30, 2007 and 2006, respectively.

High yield instruments We underwrite, syndicate, invest in and make markets in high yield corporate debt securities and loans. We define high yield instruments as securities of or loans to companies rated BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade. High yield debt instruments generally involve greater risks than investment grade instruments and loans due to the issuer's creditworthiness and the lower liquidity of the market for such instruments, generally. In addition, these issuers generally have relatively higher levels of indebtedness resulting in an increased sensitivity to adverse economic conditions. We seek to reduce these risks through active hedging strategies and through the diversification of our products and counterparties.

High yield instruments are carried at fair value, with unrealized gains and losses reflected in Principal transactions in the Consolidated Statement of Income. Our high yield instruments at November 30, 2007 and 2006 were as follows:

IN MILLIONS	AT NOVEMBER 30, 2007	2006
Bonds and loans in established trading markets	$31,457	$11,481
Bonds and loans held awaiting securitization and/or syndication	157	4,132
Bonds and loans with little or no pricing transparency	1,118	316
High yield instruments	32,732	15,929
Credit risk hedges[1]	(2,337)	(3,111)
High yield position, net	$30,395	$12,818

[1] Credit risk hedges represent financial instruments with offsetting risk to the same underlying counterparty, but exclude other credit and market risk mitigants which are highly correlated, such as index, basket and/or sector hedges.

The increase in high-yield positions from 2006 to 2007 is primarily from funded lending commitments that have not been syndicated. At November 30, 2007 and 2006, the largest industry concentrations were 26% and 20%, respectively, and were in the finance and insurance industry classifications. The largest geographic concentrations at November 30, 2007 and 2006 were 66% and 53%, respectively, in the Americas. We mitigate our aggregate and single-issuer net exposure through the use of derivatives, non-recourse financing and other financial instruments.

Private equity and other principal investments Our Private Equity business operates in six major asset classes: Merchant Banking, Real Estate, Venture Capital, Credit-Related Investments, Private Funds Investments and Infrastructure. We have raised privately-placed funds in these asset classes, for which we act as a general partner and in which we have general and in many cases limited partner interests. In addition, we generally co-invest in the investments made by the funds or may make other non-fund-related direct investments. At November 30, 2007 and 2006, our private equity related investments totaled $4.2 billion and $2.1 billion, respectively. The real estate industry represented the highest concentrations at 41% and 30% at November 30, 2007 and 2006, respectively, and the largest single investment was approximately $275 million and $80 million, at those respective dates.

Our private equity investments are measured at fair value based on our assessment of each underlying investment, incorporating valuations that consider expected cash flows, earnings multiples and/or comparisons to similar market transactions, among other factors. Valuation adjustments, which usually involve the use of significant management estimates, are an integral part of pricing these instruments, reflecting consideration of credit quality, concentration risk, sale restrictions and other liquidity factors. For additional information about our private equity and other principal investment activities, including related commitments, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

EQUITY MANAGEMENT

The management of equity is a critical aspect of our capital management. Determining the appropriate amount of equity capital base is dependent on a number of variables, including the amount of equity needed given our estimation of risk in our business activities, the capital required by laws or regulations, leverage thresholds required by the consolidated supervised entity ("CSE") rules and credit rating agencies' perspectives of capital sufficiency.

We continuously evaluate deployment alternatives for our equity with the objective of maximizing shareholder value. In periods where we determine our levels of equity to be beyond those necessary to support our business activities, we may return capital to shareholders through dividend payments or stock repurchases.

We maintain a common stock repurchase program to manage our equity capital. In January 2007, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings common stock for the management of our equity capital, including offsetting dilution due to employee stock awards. This authorization superseded the stock repurchase program authorized in 2006. Our stock repurchase program is effected through open-market purchases, as well as through employee transactions where employees tender shares of common stock to pay for the exercise price of stock options and the required tax withholding obligations upon option exercises and conversion of restricted stock units ("RSUs") to freely-tradable common stock.

Over the course of our 2007 fiscal year, we repurchased through open-market purchases or withheld from employees for the purposes described above approximately 43.0 million shares of our common stock at an aggregate cost of approximately $3.2 billion, or $73.85 per share. During 2007, we issued 15.4 million shares resulting from employee stock option exercises and another 24.5 million shares were issued out of treasury stock to an irrevocable grantor trust that holds shares for issuance to employees in satisfaction of restricted stock units granted under the Firm's equity compensation plans (the "RSU Trust").

In January 2008, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings' common stock for the management of the Firm's equity capital, including consideration of dilution due to employee stock awards. This resolution supersedes the stock repurchase program authorized in 2007.

CAPITAL RATIOS

Leverage Ratios The relationship of assets to equity is one measure of a company's capital adequacy. Generally, this leverage ratio is computed by dividing assets by stockholders' equity. We believe that a more meaningful, comparative ratio for companies in the securities industry is net leverage, which is the result of net assets divided by tangible equity capital.

Our net leverage ratio is calculated as net assets divided by tangible equity capital. We calculate net assets by excluding from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized lending agreements; and (iii) identifiable intangible assets and goodwill. We believe net leverage based on net assets to be a more useful measure of leverage, because it excludes certain low-risk, non-inventory assets and utilizes tangible equity capital as a measure of our equity base. We calculate tangible equity capital by including stockholders' equity and junior subordinated notes and excluding identifiable intangible assets and goodwill. We believe tangible equity capital to be a more meaningful measure of our equity base for purposes of calculating net leverage because it includes instruments we consider to be equity-like due to their subordinated nature, long-term maturity and interest deferral features and we do not view the amount of equity used to support identifiable intangible assets and goodwill as available to support our remaining net assets. These measures may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

TANGIBLE EQUITY CAPITAL AND CAPITAL RATIOS

	AT NOVEMBER 30,	
IN MILLIONS	2007	2006
Total stockholders' equity	$ 22,490	$ 19,191
Junior subordinated notes[1], [2]	4,740	2,738
Identifiable intangible assets and goodwill	(4,127)	(3,362)
Tangible equity capital	$ 23,103	$ 18,567
Total assets	$691,063	$503,545
Leverage ratio	30.7x	26.2x
Net assets	$372,959	$268,936
Net leverage ratio	16.1x	14.5x

[1] See Note 8, "Borrowings and Deposit Liabilities," to the Consolidated Financial Statements.

[2] Our definition for tangible equity capital limits the amount of junior subordinated notes and preferred stock included in the calculation to 25% of tangible equity capital. The amount excluded was approximately $237 million in 2007 and no amount was excluded in 2006.

Included below are the changes in our tangible equity capital at November 30, 2007 and 2006:

TANGIBLE EQUITY CAPITAL

	AT NOVEMBER 30,	
IN MILLIONS	2007	2006
Beginning tangible equity capital	$18,567	$15,564
Net income	4,192	4,007
Dividends on common stock	(351)	(276)
Dividends on preferred stock	(67)	(66)
Common stock open-market repurchases	(2,605)	(2,678)
Common stock withheld from employees[1]	(573)	(1,003)
Equity-based award plans[2]	2,829	2,396
Net change in junior subordinated notes included in tangible equity[3]	2,002	712
Change in identifiable intangible assets and goodwill	(765)	(106)
Other, net[4]	(126)	17
Ending tangible equity capital	$23,103	$18,567

[1] Represents shares of common stock withheld in satisfaction of the exercise price of stock options and tax withholding obligations upon option exercises and conversion of RSUs.

[2] This represents the sum of (i) proceeds received from employees upon the exercise of stock options, (ii) the incremental tax benefits from the issuance of stock-based awards and (iii) the value of employee services received – as represented by the amortization of deferred stock compensation.

[3] Junior subordinated notes are deeply subordinated and have a long-term maturity and interest deferral features and are utilized in calculating equity capital by leading rating agencies.

[4] Other, net for 2007 includes a $67 million net increase to Retained earnings from adoption of SFAS 157 and SFAS 159 and a $210 million decrease to Accumulated other comprehensive income/(loss) from the adoption of SFAS 158. See "Accounting and Regulatory Developments" below for additional information. Other, net for 2006 includes a $6 million net decrease to Retained earnings from the initial adoption of under SFAS 155 and SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140* ("SFAS 156").

Primary Equity Double Leverage Primary equity double leverage ratio is the comparison of Holdings' equity investments in subsidiaries to total equity capital (the sum of total stockholders' equity and junior subordinated notes). As of November 30, 2007, our equity investment in subsidiaries was $25.1 billion and our total equity capital calculated was $27.5 billion. We aim to maintain a primary equity double leverage ratio of 1.0x or below. Our primary equity double leverage ratio was 0.91x and 0.88x as of November 30, 2007 and 2006, respectively. We believe total equity capital to be a more meaningful measure of our equity than stockholders' equity because we consider junior subordinated notes to be equity-like due to their subordinated nature, long-term maturity and interest deferral features. We believe primary equity double leverage based on total equity capital to be a useful measure of our equity investments in subsidiaries. Our calculation of primary equity double leverage may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

CONTRACTUAL OBLIGATIONS AND LENDING-RELATED COMMITMENTS

CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at November 30, 2007 in total and by remaining maturity, and at November 30, 2006. Excluded from the table are a number of obligations recorded in the Consolidated Statement of Financial Condition that generally are short-term in nature, including secured financing transactions, trading liabilities, deposit liabilities at our banking subsidiaries, commercial paper and other short-term borrowings and other payables and accrued liabilities.

	EXPIRATION PER PERIOD AT NOVEMBER 30,				TOTAL CONTRACTUAL AMOUNT NOVEMBER 30,	
IN MILLIONS	2008	2009	2010-2011	2012-LATER	2007	2006
Long-term borrowings	$ —	$ 25,023	$ 28,146	$ 69,981	$123,150	$ 81,178
Operating lease obligations	281	269	493	1,562	2,605	1,714
Capital lease obligations	74	99	206	2,597	2,976	3,043
Purchase obligations	316	10	9	13	348	783

For additional information about long-term borrowings, see Note 8, "Borrowings and Deposit Liabilities," to the Consolidated Financial Statements. For additional information about operating and capital lease obligations, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase obligations contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

LENDING-RELATED COMMITMENTS

The following table summarizes the contractual amounts of lending-related commitments at November 30, 2007 and 2006:

	EXPIRATION PER PERIOD AT NOVEMBER 30,					TOTAL CONTRACTUAL AMOUNT NOVEMBER 30,	
IN MILLIONS	2008	2009	2010-2011	2012-2013	LATER	2007	2006
Lending commitments							
High grade[1]	$ 5,579	$ 1,039	$ 6,554	$ 10,411	$ 403	$ 23,986	$ 17,945
High yield[2]	4,051	411	2,103	4,850	2,658	14,073	7,558
Contingent acquisition facilities							
High grade	10,230	—	—	—	—	10,230	1,918
High yield	9,749	—	—	—	—	9,749	12,766
Mortgage commitments	5,082	670	1,378	271	48	7,449	12,162
Secured lending transactions	122,661	455	429	468	1,846	125,859	83,071

[1] We view our net credit exposure for high grade commitments, after consideration of hedges, to be $12.2 billion and $4.9 billion at November 30, 2007 and 2006, respectively.

[2] We view our net credit exposure for high yield commitments, after consideration of hedges, to be $12.8 billion and $5.9 billion at November 30, 2007 and 2006, respectively.

We use various hedging and funding strategies to actively manage our market, credit and liquidity exposures on these commitments. We do not believe total commitments necessarily are indicative of actual risk or funding requirements because the commitments may not be drawn or fully used and such amounts are reported before consideration of hedges.

Lending commitments Through our high grade (investment grade) and high yield (non-investment grade) sales, trading and underwriting activities, we make commitments to extend credit in loan syndication transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. We define high yield exposures as securities of or loans to companies rated BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade.

We had commitments to high grade borrowers at November 30, 2007 and 2006 of $24.0 billion (net credit exposure of $12.2 billion, after consideration of hedges) and $17.9 billion (net credit exposure of $4.9 billion, after consideration of hedges), respectively. We had commitments to high yield borrowers of $14.1 billion (net credit exposure of $12.8 billion, after consideration of hedges) and $7.6 billion (net credit exposure of $5.9 billion, after consideration of hedges) at November 30, 2007 and 2006, respectively.

Contingent acquisition facilities We provide contingent commitments to investment and non-investment grade counterparties related to acquisition financing. We do not believe contingent acquisition commitments are necessarily indicative of actual risk or funding requirements as funding is dependent both upon a proposed transaction being completed and the acquiror fully utilizing our commitment. Typically, these commitments are made to a potential acquiror in a proposed acquisition, which may or may not be completed depending on whether the potential acquiror to whom we have provided our commitment is successful. A contingent borrower's ability to draw on the commitment is typically subject to there being no material adverse change in the borrower's financial condition, among other factors, and the commitments also generally contain certain flexible pricing features to adjust for changing market conditions prior to closing. In addition, acquirers generally utilize multiple financing sources, including other investment and commercial banks, as well as accessing the general capital markets for completing transactions. Therefore, our contingent acquisition commitments are generally greater than the amounts we expect we will ultimately fund. Further, our past practice, consistent with our credit facilitation framework, has been to syndicate acquisition financings to investors. The ultimate timing, amount and pricing of a syndication, however, is influenced by market conditions that may not necessarily be consistent with those at the time the commitment was entered. We provided contingent commitments to high grade counterparties related to acquisition financing of approximately $10.2 billion and $1.9 billion at November 30, 2007 and 2006, respectively, and to high yield counterparties related to acquisition financing of approximately $9.8 billion and $12.8 billion at November 30, 2007 and 2006, respectively.

Mortgage commitments Through our mortgage origination platforms we make commitments to extend mortgage loans. At November 30, 2007 and 2006, we had outstanding mortgage commitments of approximately $7.4 billion and $12.2 billion, respectively. These commitments included $3.0 billion and $7.0 billion of residential mortgages in 2007 and 2006 and $4.4 billion and $5.2 billion of commercial mortgages at 2007 and 2006. Typically, residential mortgage loan commitments require us to originate mortgage loans at the option of a borrower generally within 90 days at fixed interest rates. Consistent with past practice, our intention is to sell residential mortgage loans, once originated, primarily through securitizations. The ability to sell or securitize mortgage loans, however, is dependent on market conditions.

Secured lending transactions In connection with our financing activities, we had outstanding commitments under certain collateralized lending arrangements of approximately $9.8 billion and $7.5 billion at November 30, 2007 and 2006, respectively. These commitments require borrowers to provide acceptable collateral, as defined in the agreements, when amounts are drawn under the lending facilities. Advances made under these lending arrangements typically are at variable interest rates and generally provide for over-collateralization. In addition, at November 30, 2007, we had commitments to enter into forward starting secured resale and repurchase agreements, primarily secured by government and government agency collateral, of $70.8 billion and $45.3 billion, respectively, compared to $44.4 billion and $31.2 billion, respectively, at November 30, 2006.

For additional information about lending-related commitments, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

OFF-BALANCE-SHEET ARRANGEMENTS

In the normal course of business we engage in a variety of off-balance-sheet arrangements, including certain derivative contracts meeting the FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"), definition of a guarantee that may require future payments. Other than lending-related commitments already discussed above in "Lending-Related Commitments," the following table summarizes our off-balance-sheet arrangements at November 30, 2007 and 2006 as follows:

IN MILLIONS	EXPIRATION PER PERIOD AT NOVEMBER 30, 2008	2009	2010-2011	2012-2013	LATER	TOTAL CONTRACTUAL AMOUNT NOVEMBER 30, 2007	2006
Derivative contracts[1]	$ 87,394	$ 59,598	$152,317	$210,496	$228,132	$737,937	$534,585
Municipal-securities-related commitments	2,362	733	86	69	3,652	6,902	1,599
Other commitments with variable interest entities	106	3,100	170	963	4,772	9,111	4,902
Standby letters of credit	1,685	5	—	—	—	1,690	2,380
Private equity and other principal investments	820	675	915	173	—	2,583	1,088

[1] We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. At November 30, 2007 and 2006, the fair value of these derivative contracts approximated $36.8 billion and $9.3 billion, respectively.

In accordance with FIN 45, the table above includes only certain derivative contracts meeting the FIN 45 definition of a guarantee. For additional information on these guarantees and other off-balance-sheet arrangements, see Note 9 "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

DERIVATIVES

Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statement of Financial Condition. Rather, the market, or fair values, related to derivative transactions are reported in the Consolidated Statement of Financial Condition as assets or liabilities in Derivatives and other contractual agreements, as applicable. Derivatives are presented on a net-by-counterparty basis when a legal right of offset exists, on a net-by-cross product basis when applicable provisions are stated in a master netting agreement; and/or on a net of cash collateral received or paid on a counterparty basis, provided a legal right of offset exists.

We enter into derivative transactions both in a trading capacity and as an end-user. Acting in a trading capacity, we enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities (collectively, "Trading-Related Derivatives").

As an end-user, we primarily use derivatives to hedge our exposure to market risk (including foreign currency exchange and interest rate risks) and credit risks (collectively, "End-User Derivatives"). When End-User Derivatives are interest rate swaps they are measured at fair value through earnings and the carrying value of the related hedged item is adjusted through earnings for the effect of changes in the fair value of the risk being hedged. The hedge ineffectiveness in these relationships is recorded in Interest expense in the Consolidated Statement of Income. When End-User Derivatives are used in hedges of net investments in non-U.S. dollar functional currency subsidiaries, the gains or losses are reported within Accumulated other comprehensive income/(loss), net of tax, in Stockholders' equity.

We conduct our derivative activities through a number of wholly-owned subsidiaries. Our fixed income derivative products business is principally conducted through our subsidiary Lehman Brothers Special Financing Inc., and separately capitalized "AAA" rated subsidiaries, Lehman Brothers Financial Products Inc. and Lehman Brothers Derivative Products Inc. Our equity derivative products business is conducted through Lehman Brothers Finance S.A. and Lehman Brothers OTC Derivatives Inc. Our commodity and energy derivatives product business is conducted through Lehman Brothers Commodity Services Inc. In addition, as a global investment bank, we also are a market maker in a number of foreign currencies. Counterparties to our derivative product transactions primarily are U.S. and foreign banks, securities firms, corporations, governments and their agencies, finance companies, insurance companies, investment companies and pension funds. We manage the risks associated with derivatives on an aggregate basis, along with the risks associated with our non-derivative trading and market-making activities in cash instruments, as part of our firm wide risk management policies. We use industry standard derivative contracts whenever appropriate.

For additional information about our accounting policies and our Trading-Related Derivative activities, see Note 1, "Summary of Significant Accounting Policies," and Note 3, "Financial Instruments and Other Inventory Positions," to the Consolidated Financial Statements.

SPECIAL PURPOSE ENTITIES

We enter into various transactions with special purpose entities ("SPEs"). SPEs may be corporations, trusts or partnerships that are established for a limited purpose. There are two types of SPEs—QSPEs and VIEs.

A QSPE generally can be described as an entity whose permitted activities are limited to passively holding financial assets and distributing cash flows to investors based on pre-set terms. Our primary involvement with QSPEs relates to securitization transactions in which transferred assets, including mortgages, loans, receivables and other financial assets, are sold to an SPE that qualifies as a QSPE under SFAS 140. In accordance with SFAS 140 and FIN-46(R), we do not consolidate QSPEs. We recognize at fair value the interests we hold in the QSPEs. We derecognize financial assets transferred to QSPEs, provided we have surrendered control over the assets.

Certain SPEs do not meet the QSPE criteria because their permitted activities are not limited sufficiently or the assets are non-qualifying financial instruments (*e.g.*, real estate). These SPEs are referred to as VIEs, and we typically use them to create securities with a unique risk profile desired by investors to intermediate financial risk or to invest in real estate. Examples of our involvement with VIEs include collateralized

debt obligations, synthetic credit transactions, real estate investments through VIEs, and other structured financing transactions. Under FIN 46(R), we consolidate a VIE if we are the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIEs expected losses; (ii) receives a majority of the VIEs expected residual returns; or (iii) both.

For a further discussion of our consolidation policies, see "Critical Accounting Policies and Estimates—Consolidation Accounting Policies" in this MD&A. For a further discussion of our securitization activities and our involvement with VIEs, see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

OTHER OFF-BALANCE-SHEET EXPOSURE

SIVs A structured investment vehicle ("SIV") is an entity that borrows money in the form of commercial paper, medium-term notes or subordinated capital notes, and uses the proceeds to purchase assets, including asset-backed or mortgage-backed securities. We do not own, manage or sponsor any SIVs. Our SIV-related exposure is limited to that acquired through proprietary investments or trading activity, specifically:

- At November 30, 2007, we had approximately $75 million of balance sheet exposure representing the aggregate of a fully drawn liquidity loan to a SIV, and medium-term notes and commercial paper issued by SIVs bought in the primary or secondary markets.
- We have entered into derivative transactions to which SIVs are counterparties. The total notional amount of these derivative transactions was approximately $4.1 billion at November 30, 2007. We believe the fair value of these derivative transactions is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. At November 30, 2007, the fair value of these derivative contracts approximated $50 million. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- Under resell or repurchase agreements, we have balance sheet exposure to commercial paper issued by SIVs. This exposure was approximately $14 million at November 30, 2007. For a further discussion of resell and repurchase agreements, see Note 5, "Securities Received and Pledged as Collateral," to the Consolidated Financial Statements.
- We manage certain private equity and other alternative investment funds which are not consolidated into our results of operations. At November 30, 2007, a small percentage of the assets within those funds have SIV-related exposure.

Conduits Conduits are entities established to convey financing. They are thinly capitalized SPE structures established on behalf of a sponsor or sponsors that purchase assets from multiple parties, funding those purchases by issuing commercial paper. Assets held in a conduit serve as collateral for the commercial paper issued by the conduit. We are a sponsor, guarantor, and/or liquidity and credit facility provider to certain conduits. Specifically:

- We make certain liquidity commitments and guarantees to commercial paper conduits in support of certain clients' secured financing transactions. These commitments and guarantees obligate us to provide liquidity to these conduits in the event the conduits cannot obtain funding in the market; however, our obligation is limited to the total amount required to fund our clients' assets in the conduit. At November 30, 2007, the amount of these commitments was approximately $1.4 billion. We believe our actual risk to be limited because these liquidity commitments are supported by high quality collateral. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- We provide guarantees to investors in certain VIEs. These guarantees may include a guaranteed return of the investors' initial investment or of the investors' initial investment plus an agreed upon return depending on the terms. At November 30, 2007, these commitments were approximately $6.1 billion. We believe our actual risk to be limited because our obligations are collateralized by the VIEs' assets and contain significant constraints under which downside protection will be available (*e.g.*, the VIE is required to liquidate assets in the event certain loss levels are triggered). For a further discussion, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- We have established a $2.4 billion conduit that issues secured liquidity notes to pre-fund high grade loan commitments. This conduit is consolidated in Holdings' results of operations. This is fully backed by a triple-A rated, third-party, one-year revolving liquidity back stop, which we have in turn fully backed. This conduit is consolidated in Holdings' results of operations.
- We participate in an A-1/P-1-rated multi-seller conduit. This multi-seller issues secured liquidity notes to provide financing. Our intention is to utilize this conduit for purposes of funding a portion of our contingent acquisition commitments. At November 30, 2007, we were contingently committed to provide $1.6 billion of liquidity if the conduit is unable to remarket the secured liquidity notes upon their maturity, generally, one year after a failed remarketing event. This conduit is not consolidated in Holdings' results of operations. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- As a dealer and agent in the commercial paper market, we hold a minimal amount in inventory from various conduit programs, including the multi-seller conduit discussed above. At November 30, 2007, the amount of commercial paper in our inventory from conduit programs in which we participate, as dealer and/or agent, was approximately $850 million.

RISK MANAGEMENT

Our goal is to realize returns from our business commensurate with the risks assumed. Our business activities have inherent risks that we monitor, evaluate and manage through a comprehensive risk management structure. These risks include market, credit, liquidity, operational and reputational exposures, among others.

The bases of our risk control processes are:

- We establish policies to document our risk principles, our risk capacity and tolerance levels.
- We monitor and enforce adherence to our risk policies.
- We measure quantifiable risks using methodologies and models based on tested assumptions.
- We identify emerging risks through monitoring our portfolios, new business development, unusual or complex transactions and external events and market influences.
- We report risks to stakeholders.

RISK MANAGEMENT STRUCTURE

While risk cannot be completely eliminated, we have designed our internal control environment to put appropriate risk mitigants in place. Our control processes separate the duties of risk management from revenue generation and effect management oversight of the risk management function.

Our overall risk limits and risk management policies, including establishment of risk tolerance levels, are determined by the Risk Committee. The Risk Committee, which includes management's Executive Committee, the Global Head of Risk Management and certain other members of senior management, reviews our risk exposures, position concentrations and risk-taking activities on a weekly basis, or more frequently as needed. Our Risk Committee allocates the usage of capital to each of our businesses and establishes trading and credit limits for counterparties with a goal to maintain diversification of our businesses, counterparties and geographic presence.

The Global Risk Management Division (the "Division") is independent of revenue-generation but maintains a presence in our regional trading centers as well as in key sales offices. The Division's role is to assist in explaining our risks and making them clear to management and others. The organization of the Division reflects our integrated approach to risk management, bringing together the skill sets of credit, market, quantitative, sovereign and operational risk management groups.

MARKET RISK

Market risk is the potential change to the market value of our trading and investing positions. We assume market risk in our market-making, specialist, proprietary trading, investing and underwriting activities.

Market risk can result from changes in market variables, including:

- Changes in the level, slope or shape of yield curves (interest rates), widening or tightening of general spread levels (credit or credit-related spreads) and volatility of interest rates.
- Directional movements in prices and volatilities of individual equities, equity baskets and equity indices.
- Movement of domestic and foreign currency rates.
- Price movements of commodities such as electricity, natural gas, and oil.
- Changes in asset valuations.

Responsibility for defining and monitoring market risk tolerance levels is that of our Market Risk Management Department (the "MRM Department"). Based upon the MRM Department's established thresholds, management applies business judgment to mitigate these risks, managing our risk exposures by diversifying portfolios, limiting position sizes and establishing economic hedges. Both the MRM Department and management also rely upon the Quantitative Risk Management Department (the "QRM Department") to ensure that both quantifiable and unquantifiable risk is identified, assessed and managed.

Management and the MRM and QRM Departments use qualitative and quantitative risk measures and analyses such as sensitivity to changes in interest rates, prices, and implied volatilities. Stress testing, which measures the impact on the value of existing portfolios of specific changes in market factors for certain products, is performed with regularity. Scenario analyses, which estimate sensitivity to a set of predefined market and/or external events, are also conducted periodically. A statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors known as value-at-risk ("VaR") is also used to monitor and manage market risk.

VaR We estimate VaR using a model that simulates the impact market risk factors would have on our portfolio. Our calculation of VaR is an approximation of earning and loss distributions our portfolio would realize if current market risks were observed in historical markets. Our method uses four years of historical data, weighted to give greater impact to more recent time periods in simulating potential changes in market risk factors, and estimates the amount that our current portfolio could lose with a specified degree of confidence, over a given time interval.

For the table below, a one-day time interval and a 95% confidence level were used. This means that there is a 1-in-20 chance that daily trading net revenue losses on a particular day would exceed the reported VaR.

In a historical simulation VaR, portfolio positions have offsetting risk characteristics, referred to as diversification benefit. We measure the diversification benefit within our portfolio by historically simulating how the positions in our current portfolio would have behaved in relation to each other as opposed to using a static estimate of a diversification benefit, which remains relatively constant from period to period. From time to time there will be changes in our historical simulation VaR due to changes in the diversification benefit across our portfolio of financial instruments.

VaR measures have inherent limitations including: historical market conditions and historical changes in market risk factors may not be accurate predictors of future market conditions or future market risk

factors; VaR measurements are based on current positions, while future risk depends on future positions; and VaR based on a one-day measurement period does not fully capture the market risk of positions that cannot be liquidated or hedged within one day. VaR is not intended to capture worst case scenario losses and we could incur losses greater than the VaR amounts reported.

There is no uniform industry methodology for estimating VaR. Different assumptions concerning the number of risk factors, the duration of the time series and daily changes in these risk factors, as well as different methodologies could produce materially different results and therefore caution should be used when comparing VaR measures among comparable institutions.

VaR – HISTORICAL SIMULATION

	AVERAGE VaR FOR YEAR ENDED		HIGH/LOW VAR FOR YEAR ENDED NOVEMBER 30, 2007		2006	
IN MILLIONS	NOV 30, 2007	NOV 30, 2006	HIGH	LOW	HIGH	LOW
Interest rate risk	$ 64	$ 35	$123	$ 33	$ 64	$ 23
Equity price risk	43	19	79	21	31	11
Foreign exchange risk	9	5	16	5	7	2
Commodity risk	7	4	16	4	11	1
Diversification benefit	(32)	(21)				
	$ 91	$ 42	$155	$ 48	$ 74	$ 29

	AT				
IN MILLIONS	NOV 30, 2007	AUG 31, 2007	MAY 31, 2007	FEB 28, 2007	NOV 30, 2006
Interest rate risk	$ 96	$ 79	$ 51	$ 58	$ 48
Equity price risk	50	46	54	26	20
Foreign exchange risk	11	7	6	7	5
Commodity risk	13	8	7	5	6
Diversification benefit	(46)	(40)	(31)	(21)	(25)
	$ 124	$100	$ 87	$ 75	$ 54

	AVERAGE VaR THREE MONTHS ENDED				
IN MILLIONS	NOV 30, 2007	AUG 31, 2007	MAY 31, 2007	FEB 28, 2007	NOV 30, 2006
Interest rate risk	$ 89	$ 68	$ 54	$ 41	$ 41
Equity price risk	51	45	43	34	20
Foreign exchange risk	10	8	7	11	5
Commodity risk	11	8	6	5	5
Diversification benefit	(37)	(33)	(32)	(28)	(23)
	$124	$ 96	$ 78	$ 63	$ 48

The increase in both the period end and quarterly average historical simulation VaR was primarily due to increased market volatilities which increased the overall risk across multiple business segments. Coincident with the increased market volatilities across many asset classes was a reduction in diversification between the individual components of market risk.

As part of our risk management control processes, we monitor daily trading net revenues compared with reported historical simulation VaR as of the end of the prior business day. In the 2007 fiscal year, there were four days or 1.6% of days in the period, all occurring in the second half of the twelve month period, when our daily net trading loss exceeded our historical simulation VaR as measured at the close of the previous business day. This compares with an expectation that actual losses would exceed daily net trading losses on 5% of occasions using a 95% confidence level.

Real estate investments are not financial instruments and therefore not contemplated within the VaR calculation. We use stress testing to evaluate risks associated with our real estate portfolios. As of November 30, 2007, we had approximately $21.9 billion of real estate investments; however, our net investment at risk was limited to $12.8 billion as a portion of these assets have been financed on a non-recourse basis. As of November 30, 2007, we estimate that a hypothetical 10% decline in the underlying property values associated with the non-syndicated investments would have resulted in a net revenue loss of approximately $980 million.

CREDIT RISK

Credit risk represents the loss incurred as a result of failure by a client, counterparty or issuer to meet its contractual obligations. Credit risk is inherent in traditional banking products – loans, commitments to lend and contingent liabilities – and in "traded" products – derivative contracts such as forwards, swaps and options, repurchase agreements (repos and reverse repos), debt securities and securities borrowing and lending transactions.

Management and in particular our Credit Risk Management Department (the "CRM Department") define and monitor credit risk and exposure. The CRM Department approves counterparties, assigns internal risk ratings, and establishes credit limits, among other risk mitigation procedures. The CRM Department monitors and reviews counterparty risk ratings, current credit exposures and potential credit exposures across products and recommends valuation adjustments, when appropriate. Given market events or counterparties' changes in financial conditions, additional review and adjustment procedures may be undertaken. We also seek to reduce our current and potential credit exposures by entering into agreements that: offset receivables from and payables to a counterparty; obtain upfront or contingent collateral from counterparties; provide a third-party guarantee for a counterparty's obligations; and transfer our credit risk to third parties using structures or techniques such as credit derivatives. Working with the MRM Department, the CRM Department also participates in transaction approval, where the risks of the transaction on a stand-alone basis as well as our aggregate risk exposure to the obligor are considered.

Credit Risk on Derivatives Derivatives are exchange traded or privately negotiated contracts that derive their value from an underlying asset. Derivatives are useful for risk management because the fair values or cash flows of derivatives can be used to offset the changes in fair values or cash flows of other financial instruments. In addition to risk management, we enter into derivative transactions for purposes of client transactions or establishing trading positions. The presentation of derivatives in our Consolidated Statement of Financial Position is net of payments and receipts and, in instances where management determines a legal right of offset exists as a result of a netting agreement, net-by-counterparty. Risk for an OTC derivative includes credit risk associated with the counterparty in the negotiated contract and continues for the duration of that contract.

The fair value of our OTC derivative assets at November 30, 2007 and 2006, was \$41.3 billion and \$19.5 billion, respectively; however, we view our net credit exposure to have been \$34.6 billion and \$15.6 billion at November 30, 2007 and 2006, respectively, representing the fair value of OTC derivative contracts in a net receivable position after consideration of collateral.

The following tables set forth the fair value of OTC derivative assets and liabilities by contract type and related net credit exposure, as of November 30, 2007 and November 30, 2006, respectively.

FAIR VALUE OF OTC DERIVATIVE CONTRACTS BY MATURITY

	NOVEMBER 30, 2007						
IN MILLIONS	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	GREATER THAN 10 YEARS	CROSS MATURITY, CROSS PRODUCT AND CASH COLLATERAL NETTING[1]	OTC DERIVATIVES	NET CREDIT EXPOSURE
ASSETS							
Interest rate, currency and credit default swaps and options	$ 4,814	$ 22,407	$ 13,915	$ 15,901	$(35,009)	$ 22,028	$ 21,718
Foreign exchange forward contracts and options	2,940	432	390	166	(1,449)	2,479	1,954
Other fixed income securities contracts[2]	8,015	866	89	15	(535)	8,450	6,890
Equity contracts	4,615	2,469	629	2,470	(1,826)	8,357	4,043
	$ 20,384	$ 26,174	$ 15,023	$ 18,552	$(38,819)	$ 41,314	$ 34,605
LIABILITIES							
Interest rate, currency and credit default swaps and options	$ 4,499	$ 12,355	$ 11,483	$ 11,873	$(29,295)	$ 10,915	
Foreign exchange forward contracts and options	3,578	540	530	126	(1,886)	2,888	
Other fixed income securities contracts[3]	5,474	608	322	2	(382)	6,024	
Equity contracts	5,007	5,584	795	2,928	(5,035)	9,279	
	$ 18,558	$ 19,087	$ 13,130	$ 14,929	$(36,598)	$ 29,106	

[1] Cross-maturity netting represents the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category when appropriate. Cash collateral received or paid is netted on a counterparty basis, provided legal right of offset exists. Assets and liabilities at November 30, 2007 were netted down for cash collateral of approximately \$19.7 billion and \$17.5 billion, respectively.

[2] Includes commodity derivative assets of \$1.5 billion.

[3] Includes commodity derivative liabilities of \$1.5 billion.

IN MILLIONS	NOVEMBER 30, 2006 LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	GREATER THAN 10 YEARS	CROSS MATURITY, CROSS PRODUCT AND CASH COLLATERAL NETTING[1]	OTC DERIVATIVES	NET CREDIT EXPOSURE
ASSETS							
Interest rate, currency and credit default swaps and options	$ 1,514	$ 7,332	$ 10,121	$ 8,792	$(19,125)	$ 8,634	$ 8,848
Foreign exchange forward contracts and options	2,560	472	62	43	(1,345)	1,792	1,049
Other fixed income securities contracts[2]	4,305	3	—	—	—	4,308	3,856
Equity contracts	3,142	2,741	870	362	(2,376)	4,739	1,854
	$ 11,521	$ 10,548	$ 11,053	$ 9,197	$(22,846)	$ 19,473	$ 15,607
LIABILITIES							
Interest rate, currency and credit default swaps and options	$ 2,262	$ 5,481	$ 5,012	$ 6,656	$(13,720)	$ 5,691	
Foreign exchange forward contracts and options	3,204	883	240	33	(2,215)	2,145	
Other fixed income securities contracts(3)	2,596	8	—	—	—	2,604	
Equity contracts	3,375	3,736	1,377	260	(4,004)	4,744	
	$ 11,437	$ 10,108	$ 6,629	$ 6,949	$(19,939)	$ 15,184	

[1] Cross-maturity netting represents the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category when appropriate. Cash collateral received or paid is netted on a counterparty basis, provided legal right of offset exists. Assets and liabilities at November 30, 2006 were netted down for cash collateral of approximately $11.1 billion and $8.2 billion, respectively.

[2] Includes commodity derivative assets of $268 million.

[3] Includes commodity derivative liabilities of $277 million.

Presented below is an analysis of net credit exposure at November 30, 2007 and 2006 for OTC contracts based on actual ratings made by external rating agencies or by equivalent ratings established and used by our CRM Department.

NET CREDIT EXPOSURE

COUNTERPARTY RISK RATING	S&P/MOODY'S EQUIVALENT	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	GREATER THAN 10 YEARS	TOTAL NOVEMBER 30, 2007	NOVEMBER 30, 2006
iAAA	AAA/Aaa	5%	5%	6%	8%	24%	14%
iAA	AA/Aa	14	5	3	4	26	39
iA	A/A	10	5	6	16	37	31
iBBB	BBB/Baa	3	1	1	2	7	11
iBB	BB/Ba	2	1	—	—	3	4
iB or lower	B/B1 or lower	1	1	1	—	3	1
		35%	18%	17%	30%	100%	100%

REVENUE VOLATILITY

The overall effectiveness of our risk management practices can be evaluated on a broader perspective when analyzing the distribution of daily net trading revenues over time. We consider net trading revenue volatility over time to be a comprehensive evaluator of our overall risk management practices because it incorporates the results of virtually all of our trading activities and types of risk.

The following table shows a measure of daily trading net revenue volatility, utilizing actual daily trading net revenues over the previous rolling 250 trading days at a 95% confidence level. This measure represents the loss relative to the median actual daily trading net revenues over the previous rolling 250 trading days, measured at a 95% confidence level. This means there is a 1-in-20 chance that actual daily trading net revenues would be expected to decline by an amount in excess of the reported revenue volatility measure.

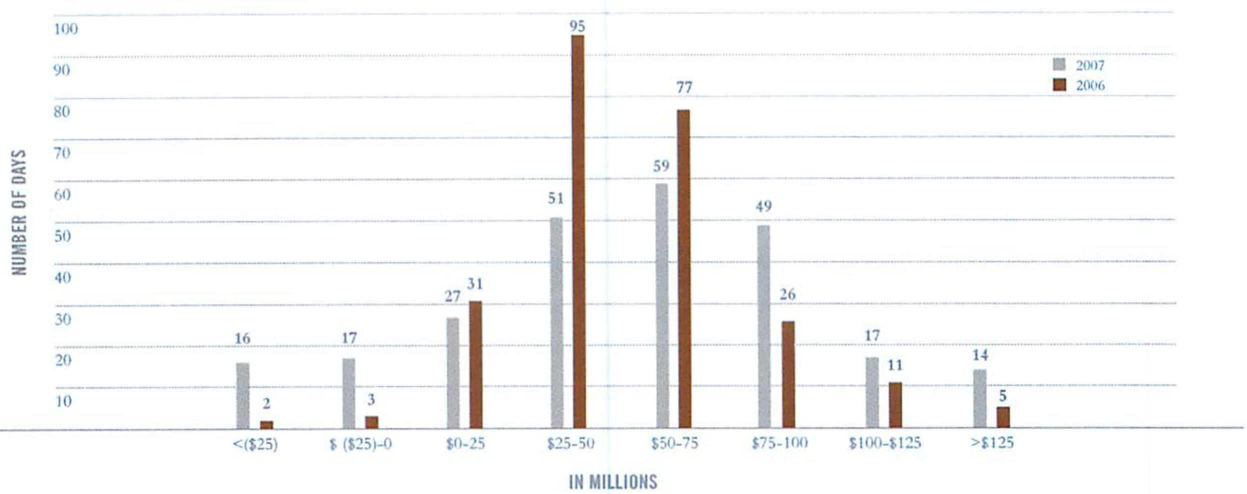
	AVERAGE REVENUE VOLATILITY FOR YEAR ENDED NOVEMBER 30,		HIGH/LOW REVENUE VOLATILITY FOR YEAR ENDED NOVEMBER 30, 2007		2006	
IN MILLIONS	2007	2006	HIGH	LOW	HIGH	LOW
Interest rate risk	$ 38	$ 25	$ 75	$ 27	$ 28	$ 23
Equity price risk	29	19	45	23	24	14
Foreign exchange risk	5	3	7	5	5	2
Commodity risk	3	1	5	2	4	2
Diversification benefit	(27)	(13)				
	$ 48	$ 35	$ 95	$ 33	$ 38	$ 34

	AT				
IN MILLIONS	NOV 30, 2007	AUG 31, 2007	MAY 31, 2007	FEB 28, 2007	NOV 30, 2006
Interest rate risk	$ 75	$ 54	$ 31	$ 29	$ 27
Equity price risk	44	34	25	25	24
Foreign exchange risk	6	6	5	5	5
Commodity risk	4	4	3	2	2
Diversification benefit	(34)	$(35)	(28)	(26)	(21)
	$ 95	$ 63	$ 36	$ 35	$ 37

	AVERAGE REVENUE VOLATILITY THREE MONTHS ENDED				
IN MILLIONS	NOV 30, 2007	AUG 31, 2007	MAY 31, 2007	FEB 28, 2007	NOV 30, 2006
Interest rate risk	$ 58	$ 35	$ 31	$ 28	$ 27
Equity price risk	41	28	25	24	23
Foreign exchange risk	6	5	5	5	5
Commodity risk	4	4	3	2	2
Diversification benefit	(34)	(28)	(27)	(24)	(21)
	$ 75	$ 44	$ 37	$ 35	$ 36

Average trading net revenue volatility measured in this manner was $48 million for the year ended November 30, 2007, a 37% increase from the comparable measure for the year ended November 30, 2006. The increase of this measurement in fiscal year 2007 was primarily driven by increased volatilities in overall markets.

The following chart sets forth the frequency distribution for daily trading net revenues for our Capital Markets and Investment Management business segments (including trading activity in the fixed income and equity markets undertaken on behalf of client investors and excluding any trading activity undertaken on behalf of those investors in private equity offerings) for the years ended November 30, 2007 and 2006:



For the year ended November 30, 2007, the largest loss in daily trading net revenues on any single day was $137 million. For the year ended November 30, 2006, the largest loss in daily trading net revenues on any single day was $59 million.

LIQUIDITY RISK

Liquidity risk is the potential that we are unable to:

- Meet our payment obligations when due;
- Borrow funds in the market on an on-going basis and at an acceptable price to fund actual or proposed commitments; or
- Liquidate assets in a timely manner at a reasonable price.

Management's Finance Committee is responsible for developing, implementing and enforcing our liquidity, funding and capital policies. These policies include recommendations for capital and balance sheet size as well as the allocation of capital to the business units. Management's Finance Committee oversees compliance with policies and limits with the goal of ensuring we are not exposed to undue liquidity, funding or capital risk.

Our liquidity strategy seeks to ensure that we maintain sufficient liquidity to meet all of our funding obligations in all market environments. That strategy is centered on five principles:

- Maintaining a liquidity pool that is of sufficient size to cover expected cash outflows for one year in a stressed liquidity environment.
- Relying on secured funding only to the extent that we believe it would be available in all market environments.
- Diversifying our funding sources to minimize reliance on any given provider.
- Assessing our liquidity at the legal entity level. For example, because our legal entity structure can constrain liquidity available to Holdings, our liquidity pool excludes liquidity that is restricted from availability to Holdings.
- Maintaining a comprehensive funding action plan to manage a stress liquidity event, including a communication plan for regulators, creditors, investors and clients.

For further discussion of our liquidity positions, see "Liquidity, Funding and Capital Resources" in this MD&A.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risk may arise from mistakes, intentional or otherwise, in the execution, confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. Our businesses are highly dependent on our ability to daily process a large number of transactions across numerous and diverse markets in many currencies, and these transactions have become increasingly complex. Consequently, we rely heavily on our financial, accounting and other data processing systems. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we will need to continue to upgrade and expand in the future to avoid disruption of, or constraints on, our operations.

The Operational Risk Management Department is responsible for implementing and maintaining our overall global operational risk management framework, which seeks to minimize these risks through assessing, reporting, monitoring and mitigating operational risks.

We have a company-wide business continuity plan (the "BCP"). The BCP objective is to ensure that we can continue critical operations with limited processing interruption in the event of a business disruption. The business continuity group manages our internal incident response process and develops and maintains continuity plans for critical business functions and infrastructure. This includes determining how vital business activities will be performed until normal processing capabilities can be restored. The business continuity group is also responsible for facilitating disaster recovery and business continuity training and preparedness for our employees.

REPUTATIONAL AND OTHER RISK

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards.

Potential clients are screened through a multi-step process that begins with the individual business units and product groups. In screening clients, these groups undertake a comprehensive review of the client and its background and the potential transaction to determine, among other things, whether they pose any risks to our reputation. Potential transactions are screened by independent committees in the Firm, which are composed of senior members from various corporate divisions of the Company including members of the Division. These committees review the nature of the client and its business, the due diligence conducted by the business units and product groups and the proposed terms of the transaction to determine overall acceptability of the proposed transaction. In so doing, the committees evaluate the appropriateness of the transaction, including a consideration of ethical and social responsibility issues and the potential effect of the transaction on our reputation.

We are exposed to other risks having an ability to adversely impact our business. Such risks include legal, geopolitical, tax and regulatory risks that may come to bear due to changes in local laws, regulations, accounting standards or tax statutes. To assist in the mitigation of such risks, we monitor and review regulatory, statutory or legal proposals that could impact our businesses. See "Certain Factors Affecting Results of Operations" above and "Risk Factors" in Part I, Item 1A in the Form 10-K.

2-FOR-1 STOCK SPLIT

On April 5, 2006, the stockholders of Holdings approved an increase in the Company's authorized shares of common stock to 1.2 billion from 600 million, and the Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend, for holders of record as of April 18, 2006, which was paid on April 28, 2006. On April 5, 2006, the Company's Restated Certificate of Incorporation was amended to effect the increase in authorized common shares.

ACCOUNTING AND REGULATORY DEVELOPMENTS

The following summarizes accounting standards that have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

SFAS 123(R) In December 2004, the FASB issued SFAS 123(R), which establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods and services and focuses primarily on accounting for transaction in which an entity obtains employee services in share-based payment transactions. Two key differences between SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS 123(R) relate to the attribution of compensation costs to reporting periods and accounting for award forfeitures. SFAS 123(R) generally requires the immediate expensing of equity-based awards granted to retirement-eligible employees or awards granted subject to substantive non-compete agreements be expensed over the non-compete period. SFAS 123(R) also requires expected forfeitures to be included in determining stock-based employee compensation expense. We adopted SFAS 123(R) as of the beginning of our 2006 fiscal year and recognized an after-tax gain of approximately $47 million as the cumulative effect of a change in accounting principle attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. For additional information, see Note 12, "Share-Based Employee Incentive Plans," to the Consolidated Financial Statements.

SFAS 155 In February 2006, the FASB issued SFAS 155, which permits an entity to measure at fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS 155 in the first quarter of 2006. The effect of adoption resulted in a $24 million after-tax ($43 million pre-tax) decrease to opening retained earnings as of the beginning of our 2006 fiscal year, representing the difference between the fair value of these hybrid financial instruments and the prior carrying value as of November 30, 2005.

SFAS 156 In March 2006, the FASB issued SFAS 156, which permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. As a result of adopting SFAS 156, we recognized an $18 million after-tax ($33 million pre-tax) increase to opening retained earnings in our 2006 fiscal year.

SFAS 157 In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

SFAS 157 also (i) nullifies the guidance in EITF No. 02-3, *Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3") that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

We elected to early adopt SFAS 157 at the beginning of 2007 fiscal year and we recorded the difference between the carrying amounts and fair values of (i) stand-alone derivatives and/or certain hybrid financial instruments measured using the guidance in EITF 02-3 on recognition of a trading profit at the inception of a derivative, and (ii) financial instruments that are traded in active markets that were measured at fair value using block discounts, as a cumulative-effect adjustment to opening retained earnings. As a result of adopting SFAS 157, we recognized a $45 million after-tax ($78 million pre-tax) increase to opening retained earnings. For additional information regarding our adoption of SFAS 157, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

SFAS 158 In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* ("SFAS 158"), which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans the benefit obligation is the projected benefit obligation while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income/(loss) (net of tax), a compo-

nent of Stockholders' equity. In accordance with the guidance in SFAS No.158, we adopted this provision of the standard for the year ended November 30, 2007. The adoption of SFAS No.158 reduced Accumulated other comprehensive income/(loss), by $210 million after-tax ($344 million pre-tax) at November 30, 2007.

SFAS 159 In February 2007, the FASB issued SFAS 159 which permits certain financial assets and financial liabilities to be measured at fair value, using an instrument-by-instrument election. The initial effect of adopting SFAS 159 must be accounted for as a cumulative-effect adjustment to opening retained earnings for the fiscal year in which we apply SFAS 159. Retrospective application of SFAS 159 to fiscal years preceding the effective date is not permitted.

We elected to early adopt SFAS 159 beginning in our 2007 fiscal year and to measure at fair value substantially all hybrid financial instruments not previously accounted for at fair value under SFAS No. 155, as well as certain deposit liabilities at our U.S. banking subsidiaries. We elected to adopt SFAS 159 for these instruments to reduce the complexity of accounting for these instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of adopting SFAS 159, we recognized a $22 million after-tax increase ($35 million pre-tax) to opening retained earnings as of December 1, 2006, representing the effect of changing the measurement basis of these financial instruments from an adjusted amortized cost basis at November 30, 2006 to fair value.

SFAS 141(R) In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

SFAS 160 In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

FIN 48 In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which sets out a framework for management to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of SFAS No. 109, *Accounting for Income Taxes*, uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained, and the amount of benefit is then measured on a probabilistic approach, as defined in FIN 48. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. We must adopt FIN 48 as of the beginning of our 2008 fiscal year. We estimate that the effect of adopting FIN 48 at the beginning of the first quarter of 2008 to be a decrease to opening retained earnings of approximately $190 million.

SOP 07-1 In June 2007, the AICPA issued Statement of Position ("SOP") No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 addresses when the accounting principles of the AICPA Audit and Accounting Guide Investment Companies must be applied by an entity and whether those accounting principles must be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for our fiscal year beginning December 1, 2008. We are evaluating the effect of adopting SOP 07-1 on our Consolidated Financial Statements.

EITF Issue No. 04-5 In June 2005, the FASB ratified the consensus reached in EITF 04-5 which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with either (i) rights to remove the general partner without cause or to liquidate the partnership; or (ii) substantive participation rights. As the general partner of numerous private equity and asset management partnerships, we adopted EITF 04-5 effective June 30, 2005 for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that had not been modified, we adopted EITF 04-5 as of the beginning of our 2007 fiscal year. The adoption of EITF 04-5 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 46(R)-6 In April 2006, the FASB issued FASB Staff Position ("FSP") FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)-6"). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46(R) by requiring an analysis of the purpose for which an entity was created and the variability that the entity was designed to create. We adopted FSP FIN 46(R)-6 on September 1, 2006 and applied it prospectively to all entities in which we first became involved after that date. Adoption of FSP FIN 46(R)-6 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 39-1 In April 2007, the FASB directed the FASB Staff to issue FSP No. FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted.

FSP FIN 39-1 does not affect our Consolidated Financial Statements because it clarified the acceptability of existing market practice, which we use, of netting cash collateral against net derivative assets and liabilities.

FSP FIN 48-1 In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 48-1, *Definition of "Settlement" in FASB Interpretation No. 48* ("FSP FIN 48-1"). Under FSP FIN 48-1, a previously unrecognized tax benefit may be subsequently recognized if the tax position is effectively settled and other specified criteria are met. We are evaluating the effect of adopting FSP FIN 48-1 on our Consolidated Financial Statements as part of our evaluation of the effect of adopting FIN 48.

FSP FIN 46(R)-7 In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7"). FSP FIN 46(R)-7 makes permanent the temporary deferral of the application of the provisions of FIN 46(R) to unregistered investment companies, and extends the scope exception from applying FIN 46(R) to include registered investment companies. FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. We are evaluating the effect of adopting FSP FIN 46(R)-7 on our Consolidated Financial Statements.

SAB 108 In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 specifies how the carryover or reversal of prior-year unrecorded financial statement misstatements should be considered in quantifying a current-year misstatement. SAB 108 requires an approach that considers the amount by which the current-year statement of income is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current-year statement of financial condition is misstated ("iron-curtain approach"). Prior to the issuance of SAB 108, either the rollover or iron-curtain approach was acceptable for assessing the materiality of financial statement misstatements. SAB 108 became effective for our fiscal year ended November 30, 2006. Upon adoption, SAB 108 allowed a cumulative-effect adjustment to opening retained earnings at December 1, 2005 for prior-year misstatements that were not material under a prior approach but that were material under the SAB 108 approach. Adoption of SAB 108 did not affect our Consolidated Financial Statements.

SAB 109 In November 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB 109"). SAB 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments* ("SAB 105"), and expresses the view consistent with the guidance in SFAS 156 and SFAS 159, that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 105 also expressed the view that internally-developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 retains that view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. Adoption of SAB 109 did not have a material affect on our Consolidated Financial Statements.

Effect of Adoption The table presented below summarizes the impact of adoption from the accounting developments summarized above on our results of operations, if any, actual or estimated:

IN MILLIONS	DATE OF ADOPTION	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	RETAINED EARNINGS	NET INCOME
YEAR ENDED NOVEMBER 30, 2006				
SFAS 123(R)	December 1, 2005			$ 47
SFAS 155	December 1, 2005		$ (24)	
SFAS 156	December 1, 2005		18	
YEAR ENDED NOVEMBER 30, 2007				
SFAS 157	December 1, 2006		45	
SFAS 158	November 30, 2007	$(210)		
SFAS 159	December 1, 2006		22	
ESTIMATED IMPACT TO YEAR ENDED NOVEMBER 30, 2008				
FIN 48	December 1, 2007		(190)	

The ASF Framework On December 6, 2007, the American Securitization Forum ("ASF"), working with various constituency groups as well as representatives of U.S. federal government agencies, issued the *Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans* (the "ASF Framework"). The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention efforts in an attempt to reduce the number of U.S. subprime residential mortgage borrowers who might default in the coming year because the borrowers cannot afford to pay the increased loan interest rate after their U.S. subprime residential mortgage variable loan rate resets. The ASF Framework requires a borrower and its

U.S. subprime residential mortgage variable loan to meet specific conditions to qualify for a modification under which the qualifying borrower's loan's interest rate would be kept at the existing rate, generally for five years following an upcoming reset period. The ASF Framework is focused on U.S. subprime first-lien adjustable-rate residential mortgages that have an initial fixed interest rate period of 36 months or less, are included in securitized pools, were originated between January 1, 2005 and July 31, 2007, and have an initial interest rate reset date between January 1, 2008 and July 31, 2010 (defined as "Segment 2 Subprime ARM Loans" within the ASF Framework).

On January 8, 2008, the SEC's Office of Chief Accountant (the "OCA") issued a letter (the "OCA Letter") addressing accounting issues that may be raised by the ASF Framework. Specifically, the OCA Letter expressed the view that if a Segment 2 Subprime ARM Loan is modified pursuant to the ASF Framework and that loan could legally be modified, the OCA will not object to continued status of the transferee as a QSPE under SFAS 140. Concurrent with the issuance of the OCA Letter, the OCA requested the FASB to immediately address the issues that have arisen in the application of the QSPE guidance in SFAS 140. Any loan modifications we make in accordance with the ASF Framework will not have a material affect on our accounting for U.S. subprime residential mortgage loans nor securitizations or retained interests in securitizations of U.S. subprime residential mortgage loans.

Basel II As of December 1, 2005, Holdings became regulated by the SEC as a CSE. This supervision imposes group-wide supervision and examination by the SEC, minimum capital requirements on a consolidated basis and reporting (including reporting of capital adequacy measurement consistent with the standards adopted by the Basel Committee on Banking Supervision) and notification requirements.

The Basel Committee on Banking Supervision published an updated framework to calculate risk-based capital requirements in June 2004 ("Basel II"). In September 2006, U.S. federal bank regulators announced their intent to implement Basel II in the U.S. On December 10, 2007, the U.S. federal bank regulators published final rules implementing the Basel II framework for the calculation of minimum capital requirements. Within the minimum capital requirements, or "first pillar" of Basel II, the federal rules deal only with the capital risk or banking book component. U.S. federal bank regulators have indicated that final rules to update market risk or trading book rules will be issued in the near future.

Basel II is meant to be applied on a consolidated basis for banking institutions or bank holding companies that have consolidated total assets of $250 billion or more and/or consolidated total on-balance-sheet foreign exposure of $10 billion or more. Basel II provides two broad methods for calculating minimum capital requirements related to credit risk (i) a standardized approach that relies heavily upon external credit assessments by major independent credit rating agencies; and (ii) an internal ratings-based approach that permits the use of internal rating assessments in determining required capital.

The time frame in which Basel II requirements would become effective for U.S. banking institutions or bank holding companies is contemplated to be (i) one or more years of parallel calculation, in which an entity would remain subject to existing risk-based capital rules but also calculate its risk-based capital requirements under the new Basel II framework; and (ii) two or three transition years, during which an entity would be subject to the new framework and an entity's minimum risk-based capital would be subject to a floor.

The Basel II framework is anticipated to impact our minimum capital requirements and reporting (including reporting of capital adequacy measurements) as a CSE.

EFFECTS OF INFLATION

Because our assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our consolidated financial condition and results of operations in certain businesses.